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Democratization and Economic Reform in Zambia

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by

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I. Executive Summary

This report assesses the impact of democratization on the process of economic reform in Zambia. Since the early 1980s, Zambia and most other African nations have been grappling with a serious economic crisis and many have committed themselves, with the assistance of the Western donors, to structural economic reform programs. Since 1989, many of those same African states have begun a process of political reform as well, with their populations rejecting the authoritarian rulers that emerged in the decades following independence and demanding the democratization of national political institutions.

The relationship between these two reform processes has important implications for donors such as USAID. Until recently, the conventional wisdom appeared to be that economic growth was more likely in authoritarian regimes, which were better able to impose the unpopular but necessary policies to promote growth. However, more recently, scholars and members of the donor community have blamed the lack of growth in Africa on the authoritarian exercise of power prevailing in most states. They have argued that democratization and regime change would spur growth by fostering the greater accountability and transparency of decision making.

This study assumes that economic and political reform need not be incompatible, but argues that democratization may well affect economic decision making in a number of ways. In particular, the report advances two specific hypotheses about the impact of democratization:

1. *Various interest groups will increase their ability to put pressure on the government as a result of democratization, but only modestly.*

2. *Interest group behavior will on balance serve to improve policy making and will not hinder the reform process.*

However, the report hypothesizes that democratization does not by itself remove the biggest political obstacles to reform. In particular,

3. *Interests within the political elite and the state bureaucracy will continue to prove a bigger obstacle to economic reform than interest group pressures.*

Finally, the report hypothesizes that two non-political issues are also likely to remain critical factors in determining the success or failure of reform.

4. *Various administrative and technical obstacles to reform have been little affected by democratization and continue to be one of the key impediments to reform.*

5. *The successful implementation of a reform measure is more likely when policy learning has occurred within the administration, thanks to previous attempts at reform implementation.*

The report turns to Zambia to determine the validity of these hypotheses. It describes the origins of Zambia's economic crisis in the 1960s and 1970s, and the failed attempts to overturn the trend of stagnant economic growth and growing debt. A pro-democracy movement emerged in 1990 which eventually led to the collapse of the Kaunda regime and the beginning of the democratic Third Republic, with a government led by Frederick Chiluba and his MMD party.

The report assesses the extent to which decision making processes have changed in the Third Republic. First, the report argues there exists today a more favorable environment for economic reform, characterized by the strengthening of the technocrats in the permanent civil service, the weakening of the party apparatchik, the relative weakening of the presidency and the emergence of the cabinet. The influence of the western donors has also significantly increased. On the other hand, certain things have not changed. Most notably, the executive continues to dominate decision making while the legislature remains weak. Second, the report argues that some interest groups have increased their influence, notably the business lobby, but that overall they rarely exert a dominant impact on policy making. Moreover, the most significant pressure group of the Second Republic, organized labor, has probably lost influence.

The MMD came into power promising rapid progress on economic reform. It made rapid progress on achieving macro-economic stabilization, with a frontal assault on the budget deficit and a tough monetary policy. The government realized a small primary budget surplus in 1993, and appeared to be headed towards another one for 1994. It could claim the lowest inflation since the mid 1980s. Most noteworthy was the government's decision to eliminate maize consumer subsidies in late 1991. Nonetheless, the key to stabilization was probably the government's decision to implement a "cash budget", under which government expenditure could only be sanctioned if there was enough revenue to support it at the time.

The government's implementation record on the structural reforms needed to promote sustainable long term growth has been much more uneven. First, initial progress on agricultural marketing liberalization has been threatened by various transitional problems related to moving quickly from a command to a market-based system. Second, the privatization program has made extremely slow and laborious progress, despite considerable pressure from the donors. Privatization appears to have become mired in a combination of political intrigue, rent seeking, and administrative and technical bottlenecks. Third, civil service reform has been stalled by its cost, in particular the onerous retrenchment package negotiated by the government and the trade unions. Fourth, a variety of social sector reforms have been placed on the back burner by the government.

By mid 1994, it was thus clear that significant progress had been made on certain elements of the economic reform program, but that others remained stuck at a standstill, or are moving very slowly indeed. How can we explain these differences? The report explains reform outcomes as resulting from a combination of factors. We first discuss the issue of government commitment and arguments that reform has slowed down because of a waning of commitment over time. We suggest that there is some truth to such arguments but that they exaggerate the amount of change over time. Instead, we argue that the MMD coalition never enjoyed a consensus on some aspects of the reform program, often the ones that are stalled today, such as privatization. Second, we analyze interest group pressures on the state and find that some groups have increased in influence, while others have decreased, but that over all no interest group can claim to have wielded determinant influence over any component of the reform program. Third, we argue that policy learning has played a critical role over time; reform has advanced furthest in areas in which there had been reform attempts during the Second Republic. Fourth, we argue that administrative complexities and financial burdens have also played a significant role in slowing down reform.

The report ends by analyzing the implications of our findings for USAID. First, based on evidence from Zambia at least, democratization in Africa should not be considered as inimical to the process of economic reform, and USAID can take some comfort in the knowledge that it does not need to choose between the two sets of reform, but can develop programs that promote both. Indeed, we argue that progress on economic reform in Zambia will benefit from further democratization.

Second, policy learning is a critical pre-requisite of successful reform. USAID should therefore take heed of the factors that appear to promote policy learning, notably by continuing its efforts to strengthen policy analysis capacity, and by maintaining a more public dialogue with the government about economic policy.

Third, the report's findings have some implications for USAID conditionality in Zambia and elsewhere in Sub-Saharan Africa. USAID should not loosen its conditionality, but should rather limit it to a small number of concerns. In addition, conditionality should emphasize procedural and general governance issues rather than specific economic policies, which should be decided through democratic processes by the Zambian people. For example, the report argues USAID conditionality should emphasize further progress on the fight against corruption and governance reform rather than setting specific targets for privatization.

Democratization and Economic Reform in Zambia

2. Theoretical Issues

2. 1. A Review of the Literature

Since the early 1980s, Zambia and most other African nations have been grappling with a serious economic crisis and many have committed themselves, with the assistance of the Western donors, to structural economic reform programs. Since 1989, many of those same African states have begun a process of political reform as well, with their populations rejecting the authoritarian rulers that emerged in the decades following independence and demanding the democratization of national political institutions [1]. Here too, Zambia has been at the forefront of changes.

As a result of these two reform processes, the relationship between economic and political change has become the subject of a lively theoretical debate [2]. Are certain types of political regimes better able to undertake structural adjustment? What impact are the recent political changes in Africa likely to have on the ongoing structural adjustment programs? Are democratic institutions capable of promoting rapid economic change? These questions have theoretical importance, but they also have enormous practical importance for institutions such as USAID, since the answers provided will have implications for the development strategies that USAID should promote in Africa. For example, the finding that democratization is likely to make economic reform and growth less likely would imply that donors would have to choose between essentially incompatible political and economic goals in Africa.

The common wisdom until recently was that democratic regimes would be less able to undertake economic reform and, as a result, democratization would undermine the prospects for structural adjustment. There were several versions of the argument. Going back to Sam Huntington's seminal work, *Political Order in Changing Societies* (1968), a common argument has been that Third World state institutions are too weak to be able to process significant participatory demands. Thus, the introduction of institutional pluralism and political competition at an early stage of development has been argued to be likely to result in instability and the decay of state institutions. Scholars influenced by Huntington in general argued that rapid economic growth was more likely to emerge from authoritarian political systems in which popular participation was circumscribed and state institutions autonomous and strong [3]. Scholars like Nelson (1984, 1990), Haggard and Kaufman (1991) and Haggard and Webb (1992) argued that structural adjustment policies were more likely to succeed when technocratic decision makers were insulated from popular pressures and allowed to make the

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[1] The extent and dynamics of political liberalization in Africa are well summarized in Bratton and van de Walle (1992) and Bratton (1993).

[2] A fairly complete bibliography is included at the end of this report.

[3] A large literature has emerged to test this hypothesis with different methodologies, approaches and results. The interested reader should consult Sirowy and Inkeles (1990) and Przeworski and Limongi (1993) for recent surveys. See Healey and Robinson (1992) for a review of the issues relating especially to Africa.

decisions that most promoted the public good.

Most scholars agree that economic change is inherently conflictual because the gains and losses from economic change are not equally shared, and the losers are bound to oppose the change. This view of change as conflictual has shaped the literature on the politics of economic reform in less developed countries and in Africa since the 1970s. Scholars like Lal (1983), inspired by Public Choice theory and the work of Olson (1982), argued that economic reform was bound to be unpopular in the short run and thus opposed by powerful constituencies within the population. The more democratic the political system, the better organized and vocal those constituencies would be, and the less the government would be able to act in the long term good of the majority.

Some scholars have come to essentially the same conclusion from a rather different, left wing, tradition when they argue that the kind of economic liberalization promoted by the western donors in the Third World in the 1970s and 1980s would affect the poor and working class so negatively that they could not be imposed without resorting to the repression of popular forces. Thus, Beckman (1992, p. 95) wrote that in Sub-Saharan Africa, "a prima facie case can be made... that SAPs (structural adjustment programs) breed repression" (See also Onimode, 1988; Shaw, 1993).

What all these arguments share is the belief that economic reform and democratization are essentially incompatible processes, and that nations must choose between the two. Popular opposition to adjustment would explode under too democratic a government. The main empirical argument against such views has been the abysmal economic record of non-democratic regimes in Africa. Progress on economic reform by the authoritarian states of the region has after all been painfully slow, while two of the handful of states in the region with pluralist political institutions, Botswana and Mauritius, have enjoyed the fastest economic growth in Sub-Saharan Africa. It is certainly difficult to find a positive correlation in Africa between economic growth and authoritarianism.

Indeed, many political scientists have established a direct causal link between the nature and exercise of political authority in Africa and that continent's economic crisis. Scholars like Herbst (1990), Sandbrook (1985), Callaghy (1990) and van de Walle (1994a) have argued that the inability of African states to undertake economic reform in the 1980s was in fact a direct result of the way in which power was exercised. Authoritarian rulers lack legitimacy and remain in power thanks to rent seeking, patronage and clientelism which are based on state intervention in the economy. For these rulers, economic liberalization would amount to political suicide, removing from their control the very resources they need to survive. It should be noted that these scholars typically view the interests of state elites as the main impediment to economic reform, rather than the interests of key societal constituencies, as was the case for the authors cited earlier. Thus, rent seeking and clientelism may not extend far down the social ladder, but may benefit only a small number of elites in or close to the state. If this is the case, the key obstacle to reform is not necessarily that it would be unpopular but rather that it is opposed by state elites themselves, whose interests it undermines (van de Walle, 1994a).

In any event, these scholars do agree that the democratization of political life in Africa might actually have several positive impacts on the economy. First, popularly elected officials would enjoy greater legitimacy and would not be as dependent on rent seeking and patronage to remain in power as authoritarian rulers (van de Walle, 1994b). Less politically threatened by economic liberalization, they would be more amenable to the agenda of reform promoted by the Western donors. Secondly, the various counterweights to state power that exist in more pluralist regimes would serve to improve the government's economic performance by increasing its accountability. Democratization would decrease the corruption and incompetence that characterize so many African states. Not all scholars are equally sanguine, however, regarding the extent of these changes. After all, rent seeking and corruption are deeply ingrained in African political systems [4]. The introduction of multi-party politics and regular elections will not necessarily by itself alter the practices of government officials, as long as democratic institutions such as the press, the legislature, the judiciary and various civic associations remain weak.

By the late 1980s, the donors themselves were coming to the conclusion that political reform was a pre-requisite of economic reform. The World Bank's watershed 1989 report, *Sub-Saharan Africa: From Crisis to Sustainable Growth* argued that Africa's economic crisis was above all one of governance, and that there would not be long term sustainable economic growth in Africa until there were significant changes in how governments exercised power. These included respect for the rule of law and property rights, increases in the accountability of public officials and in the transparency of decision making, and greater participation (The World Bank, 1992a; Brautigam, 1992). Following a similar logic, USAID had begun to incorporate governance issues in its programs and policy dialogue with African governments (Charlick, 1992; USAID, 1993). In sum, the donors had come to recognize that abuses of power by the state were important causes of the economic crisis. The official view now is that economic and political reform are compatible processes, and can therefore be promoted more or less simultaneously [5].

These different arguments all suggest that regime type -- in other words the manner in which state power is exercised -- provides the critical variable for understanding economic policy outcomes. In fact, however, it may be possible that factors other than regime type are more important to understanding the failure of economic reform in countries like Zambia. If that is true, then the recent democratization may not have much impact on the economy, and the obstacles to long term sustained economic growth would be the same in the democratic Third Republic as it was in the authoritarian Second Republic. Two candidates are usually identified.

First, it can be argued that the main obstacle to economic reform in Zambia is *ideological* rather than interest based: state elites may oppose key reforms not because they believe these reforms will undermine their material interests but rather because they consider them undesirable from a public policy point of view. Thus, some scholars assert that the economic ideas of policy elites are at least partly independent of their interests (Hall, 1989 and 1993; see also Stallings 1992 and Kahler, 1992). It may be for example, that opposition to privatization is based on the view that state ownership is necessary for rapid economic growth, or that agricultural marketing liberalization is opposed because of the view that it will unduly benefit private speculators and hurt the welfare of poor consumers. If there is significant ideological support for current policies, then the key to economic reform may not be to change the material incentives faced by state elites, but rather to alter their economic ideas.

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[4] For several different point of views, see the contributions to USAID (1993).

[5] The contributions in Moore (1993) provide an excellent discussion of these issues.

One process by which this happens is called "policy learning", in which decision makers evolve in their policy preferences as a result of changes in their perceptions regarding the impact of current policies. Government officials bring to the policy making table certain prejudices and predilections about both policy means and ends, which evolve over time as policy fashions change and certain policies are demonstrated to have undesirable effects. In some cases, policy learning does not effect outcomes, which are entirely determined by political factors, but some scholars now argue that the absence of policy learning can also be a significant obstacle to change (Grindle and Thomas, 1991; Bryant and White, 1982). If so, it is important to examine the factors that facilitate policy learning. We return to this issue below.

Second, some scholars have argued that the low technical capabilities of African bureaucracies are an important obstacle to economic reform (Leonard, 1987; Hyden, 1983). Significant policy change is immensely complex and administratively demanding; for various reasons, the African bureaucracies that are to design and implement these policies lack the various needed technical, financial and administrative skills. These administrations have moreover lost valuable skills and experience in recent years as the economic crisis has undermined their ability to attract and retain personnel. As a result, the key obstacle to reform may not be the government's unwillingness to undertake the needed measures so much as its inability to do so. If so, it is probably important to distinguish policy reform measures according to their administrative complexity.

2. 2. Working Hypotheses

In this report, we adopt the assumption that economic and political reform need not be incompatible. Even so, the previous discussion suggests that we need to ask whether and how democratization is likely to affect economic decision making. Democratization is likely to open up politics and empower new groups. It is likely to decentralize power away from the executive and towards other branches of government as well as non-governmental actors, such as the press. What is the likely impact of such changes? How can they help us understand the process of economic reform in Zambia? How does democratization affect other factors that affect economic reform processes, such as the ideological preferences of state elites, or the administrative capabilities of African bureaucracies? This section develops several working hypotheses for the analysis below.

First, policy outcomes are likely to emerge from a slower and more chaotic decision making process that involves a larger number of actors, in and out of government. One would expect various interest groups (business associations, trade unions, farmer organizations) and civic associations (bar associations, PTAs), as well as the media to begin to participate in or at least influence economy policy making. Building coalitions and seeking consensus across political groups is likely to be more important in democratic states. The disadvantage of such an evolution are predictable: decision makers will have to contend with pressures from a wider range of interests and the groups that organize on their behalf. Democratization will presumably increase their number, ability to act and political importance.

Insofar as economic reform involves the deferral of current consumption for the sake of greater investment, it involves short term sacrifices, and more groups will pressure democratic governments to avoid those sacrifices and to have them borne by others. Of course, democratic societies in the west have developed a host of methods and strategies to ensure that these interest groups pressures do not overwhelm governments and prevent economic growth or adjustment to exogenous shocks. It is for example widely believed that elections confer a legitimacy on governments in democratic states that allow them to undertake policies that are unpopular at least in the short run. Nonetheless, these pressures exist in virtually all democratic societies and do pose constraints on governmental actions.

One of the legacies of several decades of authoritarian rule in Africa, however, is the weakness of these interests groups and civic associations. Repressed for years, they are only beginning to emerge and remain organizationally and financially weak. These associations need time to grow and gain experience. In time they may achieve real power, but in the short to medium term, most will not represent a real threat to the state, which will remain the dominant organizational structure in the nation.

In sum, democratization is likely to have both advantages and disadvantages for the process of economic reform. It is important in the African context, however, not to exaggerate the likely discontinuities brought on by a democratic transitions. Even after free and fair elections and the restoration of basic democratic freedoms, democratic institutions will take time to establish themselves and change the way in which politics is practiced. There is no reason to think, for example, that corruption and rent seeking can not accommodate themselves quite well to democratic regimes. In Africa in particular, the governance institutions that oversee public finances (e.g. the auditor general's office, the public accounts committees of parliament, the office of the ombudsman) are quite weak.

This discussion has several implications for our study of adjustment in Zambia. What is likely to be the impact of interest groups on policy making in the Third Republic? We identify several hypotheses to help direct our analysis below.

1. *Various interest groups will increase their ability to put pressure on the government as a result of democratization, but only modestly.* The increase is unlikely to be dramatic, at least in the short run but it will be significant. Existing interest groups will increase in influence while new ones will emerge. This study will investigate which interest groups have emerged and how they have increased their influence.

2. *Interest group behavior will on balance serve to improve policy making and will not hinder the reform process.* The greater scrutiny that policies undergo before and during implementation by various interest groups will improve policy outcomes. It will improve decision making by increasing government accountability and transparency. Policies will have been assessed more thoroughly and their impact on different groups of the population is more likely to have been evaluated. In addition, a democratic decision making process will result in policies that enjoy greater legitimacy and are thus easier to sustain. It is more difficult for an interest group to protest against a policy when it knows that the policy has been publicly debated and enjoys the support of a majority of the population.

3. *Interests within the political elite and the state bureaucracy will continue to prove a bigger obstacle to economic reform than interest group pressures.* Beneficiaries of the current policies within the state itself will seek to maintain the status quo. Many officials are dedicated public servants who implement policies with impartiality and selflessness. But it must be recognized that

part of the state apparatus is highly interested and politicized and actively seeks to perpetuate the life of policies which it benefits from. This includes bureaucrats who fight to maintain the power, resources and discretion conferred on them by certain forms of state intervention in the economy; it also includes the old UNIP apparatchiks who have been granted various forms of rent seeking opportunities in the past and have managed to remain in position despite the democratic transition. We hypothesize that these interests remain well placed to block at least certain kinds of reforms. Our study will try to identify the bureaucratic interests that are slowing down the implementation of certain reforms.

4. *Various administrative and technical obstacles to reform have been little affected by democratization and continue to be one of the key impediments to reform.* This is particularly true for reforms which require significant implementation capacity on the part of the government. It is further suggested that the political obstacles to a policy change will be more likely to block reform when its implementation is administratively complex. Our study will try to define what kinds of policy measures are more likely to be blocked by administrative problems.

5. *The successful implementation of a reform measure is more likely when policy learning has occurred within the administration, thanks to previous attempts at reform implementation.* Reform in the Third Republic will be more likely to be successful when it was already attempted during the Second Republic. Senior decision makers are more likely to support reform policies after various alternative policies have been tried and found wanting. Previous attempts at implementing a policy measure provides valuable experience to the administration, even when that previous attempt was not successful.

As we turn to Zambia, we will assess the validity of these working hypotheses. In particular, events in Zambia before and after 1991 allow us to determine whether and how economic decision making has been changed by democratization. Have interest groups and civic associations have emerged and if so have they forced greater accountability and transparency from the government? Have these groups opposed economic reforms? What other obstacles exist to economic reform? How have they been affected by democratization?

3. Historical Overview of the Economic Crisis

3. 1. Origins of the Crisis

Zambia's economic performance during the first two and a half decades of independence was extremely disappointing, with an annual average real GDP growth rate of 1.1 percent between 1965 and 1991, well below the population growth rate. The country's relative prosperity at independence had been based almost entirely on copper mining, which contributed 41 percent of gross domestic product, 71 percent of government revenue, and 93 percent of foreign earnings in 1965. This copper-based prosperity could not disguise the little effort made during the colonial era to promote development or improve the welfare of people outside of the mining enclaves. At independence, Zambia thus had a only hundred university graduates and slightly over a thousand secondary school leavers. Except for a few mission hospitals, health facilities were in equally short supply, and basic infrastructure was absent outside the line of rail.

Buoyed by high copper prices, ambitious government programs were put in place in the years after independence to attempt to diversify the economy, develop basic infrastructure, and reduce regional inequalities. At independence, private business had been almost entirely in the hands of settlers and foreigners. As a result, UNIP viewed regulation and nationalization of the private sector as a basic issue of national sovereignty. The "Mulungushi Declaration" of April 16, 1968 began an ambitious program of nationalization, which was to result in public ownership of virtually every large enterprise in the country. The government created the Zambia Industrial and Mining Corporation (ZIMCO) to eventually manage some 121 public companies. An additional 26 corporations would be placed under direct ministerial control, so that by 1990, the parastatal sector would account for some 80 percent of national GDP.

Table 1: General Economic Indicators, 1973-90

YEAR	Terms of Trade[a]	Reserves[b]	Current Account[c]	Budget Balance[d]	GDP Growth[e]	Copper Prices[f]
1973	301.8	185.5	113.3	-315.4	-0.9	80.58
1974	215.5	164.4	8.4	70.0	6.7	93.23
1975	126.3	142.0	-726.1	-340.8	-2.4	56.10
1976	139.6	92.7	-132.8	-231.3	4.3	63.64
1977	119.8	66.3	-232.3	-190.3	-4.8	59.41
1978	114.0	51.1	-321.1	-208.8	0.6	61.92
1979	135.9	80.0	4.7	-139.9	-3.0	89.49
1980	125.5	78.2	-544.6	-295.0	3.0	99.12
1981	100.1	56.2	-766.6	-210.2	6.2	79.05
1982	88.9	58.2	-592.6	-276.5	-2.8	67.21
1983	97.8	54.5	-310.0	114.6	-2.0	72.23
1984	n.a	54.2	-162.7	-120.1	-0.4	62.66
1985	n.a	200.1	-404.1	-232.7	1.6	64.29
1986	n.a	70.3	-372.1	-388.1	0.6	62.13
1987	n.a	108.8	-256.7	-232.3	-0.2	80.79
1988	n.a	134.0	-354.7	-205.2	6.7	117.93
1989	n.a	116.2	-292.0	-71.7	-1.1	129.15
1990	n.a	193.1	-489.8	-43.8	-0.4	120.72

Notes: [a] terms of trade (1987 Index); [b] total reserves minus gold in US $' million; [c] current a/c balance before official transfer in US $' million; [d] government budget balance in ZK' million; [e] annual growth rates of gdp at constant prices; [f] London Metal Exchange copper prices US cents/pound.

Sources: IBRD, **World Tables 1992** and IMF, **International Financial Statistics Yearbook 1992.**

These ambitious government programs resulted in rapid growth in Government expenditure, which by 1970 already accounted for 41 percent of GDP. Government investment to consumption ratios were high, but the quality of the investment was suspect, as resources were often wasted on over-designed projects with high unit costs and long delays (See Gulhati, 1989, p.14; The World Bank, 1993b, pp. 10-22). Although a spurt of economic growth resulted, reliance on mining remained strong, and when copper prices collapsed in the early 1970s [6], the economy began a steady decline which continued inexorably through out the 1980s. National accounts data for the 1974-1990 period are provided in Table 1.

Government intervention in the maize subsector proved particularly harmful to the economy. The policy of subsidizing maize and nationalizing its marketing was a long standing one, introduced by the colonial government through the Control Ordinance of 1936 and motivated by the need to maintain cheap food prices for the emergent industrial labor force, notably in the copper mines. The UNIP government increased and broadened maize subsidies substantially during its three decades in power, despite their rising cost, in part to attempt to keep both producers and consumers satisfied, and in part in keeping with prevailing development doctrines (GRZ, Ministry of Agriculture, 1990).

Table 2: Maize Subsidy in Relation to Total Budget Deficit

Year	Gvt Budget (K'm)	Budget Deficit (K'm)	Maize Subsidies (K'm)	Subsidies As % of GVT	
				Budget	Deficit
1980	1657.6	160.3	154.0	9.3	96.1
1981	1388.6	155.7	87.1	6.3	55.9
1982	1643.2	658.1	138.0	8.4	21.0
1983	1475.9	8.6	124.7	8.4	145.0
1984	1484.6	284.8	81.6	5.5	28.7
1985	2184.3	280.4	134.0	6.1	47.8
1986	5383.6	1025.7	565.0	10.5	55.1
1987	5837.5	2146.8	638.4	10.9	29.7
1988	8359.3	1531.2	1413.0	16.9	92.3
1989	9838.0	3699.0	1585.6	16.1	42.9
1990	24503	2801.4	3363.9	13.7	120.1

Source: GRZ (Ministry of Agriculture): 1990.

The different maize subsidies cost between 5.5 percent and 16.9 percent of total government budgets and amounted to the equivalent of 21 percent and 145 percent of budget deficits during the 1980s (see table 2). The policy was a classic case of "urban bias", in which the interests of agriculture were regularly sacrificed at the altar of urban political stability (Bates, 1983). Maize

[6] The price of copper declined from US $0.93/pound in 1974 to US $0.56/pound in 1975.

consumers were subsidized at an average rate of 52 percent between 1975-1985, while producers were taxed in the form of low producer prices only partly compensated by incompetently administered input subsidies.

The government had established the National Agricultural Marketing Board (NAMBOARD) in 1969, granting it a monopoly in maize and fertilizer marketing. This was followed in the 1970s by the creation of the Zambia Cooperative Federation (ZCF) to run parallel to NAMBOARD and also handle input delivery. These two agencies soon bore all storage and marketing responsibilities, yet their limited capacities and the lack of profitability of maize trading across large parts of the country resulted in chronic financial problems for them. In exchange for its financial support, the government undermined their autonomy and capacity with various controls, non-commercial functions, and day to day political interference (Ojermark and Chabala, p. 20). The cooperative movement soon became UNIP's conduit into the countryside as dispenser of patronage and rents, and virtually every season was marked by problems relating to input delivery and marketing.

As elsewhere in Africa, response to the emerging economic crisis was slow and initially misguided. Most observers first perhaps wishfully viewed the fall in the price of copper as temporary, and the government did not adjust public finances to the new level of revenues, choosing instead to finance the growing deficits by borrowing and depleting foreign reserves. Indeed, the 1970s were characterized by continued rapid growth in public expenditure and increasingly obtrusive state intervention in the economy, under Kaunda's doctrine of "Humanism".

Deficit financing of the budget inevitably created increasing inflationary pressures (see Table 2.3) and pushed up the real value of the Kwacha, which by the late 1970s was clearly overvalued. Between 1975 and 1982, the government's policy response to growing economic disequilibria was to impose a wide array of administrative and price controls, taxes and subsidies, which achieved little beyond fueling the growth of capital flight and parallel markets for credit, foreign exchange and various goods (Aron and Elbadawi 1992).

3. 2. The Failure of Reform During the 1980s

As the economic crisis worsened and private capital flows turned negative, Zambia turned to the IMF and World Bank for financial support, with a series of loans in the late 1970s and early 1980s (See Ncube et al. 1987; Seidman Maketla, 1986), including a 20 percent devaluation of the Kwacha in January 1983 under the aegis of an IMF Extended Fund Facility loan. The economic slide continued, however, so that by the time the government began the Radical Reform Program (RRP) in October 1985, supported by the World Bank and IMF, Zambia had become the most indebted country in the world relative to its GDP.

The 1985-87 RRP envisaged thorough liberalization of the economy as well as fiscal and monetary stabilization [7]. First, It liberalized interest rates and allowed the Zambian Kwacha to float through a weekly auction of foreign exchange. The auctioning of the foreign exchange led to a fall

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[7]. A large literature exists on Zambia's attempts at economic reform in the late 1980s. See for example Bates and Collier (1992), Callaghy (1990), Gulhati (1989), Loxley (1990) and Geisler (1992).

in the October 1985 nominal rate of K2.20 to K15 per US $1.00 by December 1986 and to 21 K right before the system was abandoned in April 1987. Second, the program planned to reduce maize consumer subsidies and liberalize maize marketing. However, the government stalled on marketing reform while the removal of subsidies was quickly rescinded when the ensuing sharp rise in the price of mealie meal led to mass rioting in the Copperbelt in December 1986.

TABLE 3: Economic Indicators for Zambia; Period Averages

Period	1970-74	1975-82	1983-86	1987-90
GFCF (% of GDP)	34.51	20.83	16.80	12.38
EMPLOYMENT (% Change/Yr)	3.24	-0.58	-0.41	1.12
GDP (% Change/Yr)	5.31	0.12	0.10	1.71
CPI (% Change/Yr)	6.23	12.88	32.34	83.34
GNP PER CAPITA (1975 Kwacha)	386.79	268.55	207.49	188.48
TOTAL EXTERNAL DEBT (US$ million)	772.60	2,676.98	4,488.75	6,847.95

Source: IBRD, **World Tables 1992**; CSO, **Monthly Digest of Statistics**, various issues

On May 1 1987, in the context of growing political unrest and opposition to the economic reform package, Kaunda announced the cancellation of the RRP. It was replaced by the National Economic Recovery Programme (NERP) which set aside IMF policies (and western donor financial support) for a return to pre-1982 controls. Several factors lay behind Kaunda's failure to sustain the 1985-87 RRP. First, of course, the reforms were unpopular. They alienated segments of the society which were potentially the most threatening to the government, namely the urban elites and unionized formal sector workers who had benefited from the earlier economic regime of price and foreign exchange controls, rising real wages, and food subsidies (Callaghy, 1990; Hawkins, 1991).

But, second, and perhaps more important, the program never enjoyed the full backing of the political leadership, which was not willing to defend a program it did not believe in. In the mid 1980s, many decision makers still believed that the economic crisis did not result from domestic policies, but rather from external factors beyond their control, such as the decline in copper prices and Zambia's courageous stance in the fight against apartheid (see Seidman Makgetla, 1986; Callaghy, 1990). The impetus for change came largely from Zambia's creditors with the domestic support of a small group of technocrats [8]. A strong anti-reform coalition of political leaders was excluded from the decision making inner circle and began to take pot shots at the program once it failed to deliver immediate results.

Thanks in part to higher copper prices in 1988, the NERP initially seemed to be sustainable, even if the break with the international financial institutions (IFIs) resulted in a sharp decline of foreign assistance, from around US $500 million per year to only US $150 million. By 1989, however, amidst growing inflation and a runaway budget deficit, the government renewed its policy dialogue with the donors. The IMF approved Zambia's Policy Framework Paper (PFP) in September 1989 for the 1990-1993 period and set up a donor support group to deal with the problem of clearing US $190 million and US $860 million arrears to the World Bank and the IMF respectively. A three-year IMF shadow programme was put into effect in January 1990.

Despite this initial progress, the program soon came unstuck in the face of the political dynamics which were eventually to result in the end of the Second Republic (See below). Growing labor militancy led the government to make large unbudgeted wage concessions, which in turn resulted in rapid money supply growth (46 percent at the end of 1990) and, the acceleration of inflation. A new, revised, PFP was gamely drawn up with the donors on March 5, 1991, but the government proved unwilling to respect its terms, in particular regarding the removal of maize subsidies. In May, Kaunda tried with no success to convince the donors to postpone this measure for another six months, arguing that removing the subsidy before the presidential election scheduled for November 1991 would result in violent unrest similar to that in December 1986 and June 1990 (EIU Country Report No. 4, 1991, p.14). The fiscal weight of the subsidies ensured that the new PFP's targets could not be met, and the IMF and the World Bank responded by suspending support for the program in September 1991. The election campaign unfolded in the context of a worsening economic crisis as the government's increasing reliance on deficit spending only served to push up inflation, which by the end of the 1991 was nearing 200 percent and increasing fast.

In November 1991, Kaunda and UNIP were soundly defeated, as Frederick Chiluba won 76 percent of the presidential vote, and his party, the MMD won 125 out of 150 parliamentary seats. Kaunda chose to respect the results and gracefully bow out of Zambian public life, ensuring a peaceful transfer of power to the MMD [9].

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[8] A new economic team had been put in place to pave way for the radical reform programme that included the Minister of Commerce and Industry, Minister of Finance, Governor of the Bank of Zambia and Special Assistant to the President (Economics) and played a major part in initiating reforms (Hawkins, 1991, p.844).

[9] The election is well described in Bratton (1992) and Baylies and Szeftel (1992).

3. 3. The Democratic Transition

The collapse of the Kaunda regime was in part related to the failures of its economic policies. Over time, the regime lost the support of each of the major constituencies that had brought it to power at independence. As its social base shrank, it came increasingly to rely on the patronage and rent seeking afforded by the preeminent role of the single party and state intervention in the economy in order to maintain political stability. By one estimate, for example, Kaunda disposed of some 40,000 UNIP controlled patronage positions in Lusaka alone during the mid 1980s (Bates and Collier, p. 391). These practices were difficult to reconcile with the fiscal austerity and economic liberalization increasingly demanded of the regime during the 1980s.

Nonetheless, political opposition to the Kaunda regime remained too fragmented and disorganized to threaten its hold on power until the late 1980s, when open criticism of the one-party system emerged. Organized labor provided the earliest criticism. The ZCTU had long been the most vocal critic of the government, and viewed itself as an unofficial opposition party. At a time when the government had been intolerant of dissenting views, ZCTU had enjoyed some freedom to criticize government policy [10]. As the fiscal crisis worsened and the UNIP government took an increasingly tough stance on labor issues, its criticism grew and took on a political hue. The union leadership became frustrated with the regime, and began to blame the decline of the purchasing power of its rank and file on economic mismanagement. In turn, this led union leaders like Frederick Chiluba to question the lack of government accountability in the one-party system, and to link the overcoming of the economic crisis to political reform. The government responded by trying to weaken the union movement, a strategy culminating with the passage of the Industrial Relations Act (1990) which dropped the "one union, one industry" principle and mandatory affiliation to ZCTU, thereby undercutting the union's financial base in membership dues. This attack on ZTCU's position only radicalized the union leadership. By 1990, the ZCTU General Council made clear its opposition to one-party political rule, declaring in March, for example, that "the ZCTU believes that the one-party system is open to abuse" and advocating a national referendum on multi-partyism (Bratton, 1992, p.85).

UNIP was clearly losing political initiative and pressure on Kaunda to democratize increased. In May 1990, Kaunda bowed to this pressure and scheduled a national referendum on the single party. Nonetheless, economic reform had to proceed in order to placate the country's creditors and, in a bid to bring down the budget deficit as required by the PFP, the government raised the price of mealie meal in June 1990. As in December 1986, riots broke out, but this time, Kaunda refused to rescind the measures. The rioting proved more widespread, spreading from Lusaka to the Copperbelt, and was also more overtly political, with open calls for immediate elections and Kaunda's ouster.

Further unsettling to the regime, an army lieutenant took control of the radio station for about five hours on June 30 and announced a coup, to widespread celebration in the streets that confirmed UNIP's unpopularity. Although the coup attempt was quickly crushed, it shook the political establishment. In addition, the MMD continued to attract huge crowds to its political rallies, in stark difference to the poor turn-outs at UNIP rallies. It became clear to Kaunda that UNIP would lose the

[10] See Lungu (1986) and Bratton (1992). In 1981, ZCTU outlined as one of its main roles to highlight "...the problems besetting the nation without sweeping any dirt under the carpet" (Lungu, p. 401).

referendum. Therefore, on 24th September 1990, it was set aside for direct multi-party elections to take place in October 1991.

By then, labor was no longer alone in opposing UNIP: the Movement for Multi-party Democracy (MMD) had been formed as a pressure group to fight for the return to multi-party politics in Zambia in July 1990 at a meeting in Lusaka attended by labor leaders, businessmen, intellectuals and politicians that had fallen away from UNIP. Although some of these groups overlapped (e.g. many former UNIP politicians had become successful businessmen), they represented different constituencies and interests, and were united only by their determination to remove Kaunda and UNIP from power.

MMD's diversity would turn into a liability after it came to power, but proved to be a strength in the run up to the election. First, the alliance included a number of intellectuals, church groups and human rights advocates who viewed it as the best vehicle for restoring democracy to Zambia and assured MMD the support of students, intellectuals and many middle class professionals. Second, it included a large number of ex-UNIP leaders who had for one reason or another broken with Kaunda: "no fewer than 20 MMD candidates in the 1991 elections were former or sitting UNIP MPs, and 12 had been cabinet ministers or central committee members. Another six had been UNIP regional secretaries or district governors and four were former army officers". (Baylies and Szeftel, 1992, p. 83). For some, joining MMD was an act of pure opportunism; others joined after having tried to increase the degree of pluralism within UNIP [11].

Third, organized labor provided a strong organizational base, particularly in Lusaka and the Copperbelt. It was no coincidence that Frederick Chiluba, the president of ZCTU, quickly became the co-vice president responsible for organization and operations of the interim executive. He would later emerge as the presidential standard bearer for the party. At the same time, finally, a number of prominent businessmen such as Emmanuel Kasonde and Arthur Wina provided the MMD with the necessary campaign finance to compete against the resources of the state backing UNIP. Support from the business community also provided international credibility, notably reassuring the donor community about the likely future economic policies of an MMD government, even if it was to be headed by a trade unionist. Indeed, from a series of informal meetings in Lusaka and Washington, as well as from the language in the MMD Manifesto which openly advocated privatization and economic liberalization, the donors could find reason to believe that the economic reform proclivities of the MMD were perhaps greater than UNIP's and certainly no less. By the end of the third quarter of 1991, the Western donors had all but openly shifted their support to the MMD.

In sum, Zambia's unlikely opposition alliance was bound to fragment in time, but made the MMD an irresistible force in 1990-91. The election proceeded with remarkably little trouble, as Kaunda appears to have believed to the end that he would prevail in a free and fair election. Oddly enough, the need for extensive and fundamental economic reform was not denied by either party, as UNIP could not credibly campaign against the reform program it had agreed to with the donors.

[11] At UNIP's extra-ordinary Fifth National Convention in March 1990, the party leadership rejected the reformers' call for a return to multi-party politics, leading many of them to leave the party and eventually to join the MMD.

Therefore, the economic policy debate centered around which party could better implement reforms, and MMD skillfully reminded voters of UNIP's past economic mismanagement and failures to implement a coherent reform program. MMD's message proved to be effective as the failure of reform through out the 1980s had eroded the confidence of the population in UNIP's ability to restore growth to the economy. UNIP's poor showing on election day should thus have come as no surprise.

3. 4. The Legacies of the Second Republic

What were the prospects for economic reform facing the new MMD government in late 1991? On the one hand, the economic crisis had reached dangerous proportions and posed daunting dilemmas for the new government. On the other hand, the new government enjoyed a window of opportunity to push reform forward.

The economic legacy: The new MMD government came to power with the economy facing unmanageable external debt servicing difficulties, severe shortages of foreign exchange, a budget deficit hovering between 6 and 10 percent of GDP, a triple digit rate of inflaticn, and severely deteriorating infrastructure and social services. Gross fixed capital formation which as a percentage of GDP had averaged as high as 34.5 percent between 1970 and 1974 fell to only 12.4 percent between 1987 and 1990. Formal sector employment had shrunk since 1975 even though the labor force had expanded rapidly over the years. All these developments translated into a marked decline of welfare for the population as a whole. Per capita GNP fell from K386.79 between 1970 and 1974 to K188.48 between 1987 and 1990.

The half hearted reform measures actually forced on the government by fiscal pressures brought no relief. The expenditure reductions achieved were inadequate and tended to undermine long-term recovery rather than promote it. Capital expenditures were cut more sharply than recurrent expenditures, and within the latter, emoluments were protected compared with recurrent departmental charges (RDCs) which are necessary for personnel to work effectively (Gulhati, 1989, pp. 15-16). As a result, the quality of government services was declining.

Apart from carrying out far-reaching macro-economic stabilization, urgent steps were required on sectoral reforms. After years of neglect, the mines were still the major foreign exchange earner despite their reduced contribution to GDP (10 percent in 1990), but they required new capital investment estimated at between 1 and 1.5 billion dollars to replace ageing physical plant and develop new mines in order to maintain current levels of production (See *Profit Magazine*, March 1993). Similarly, the manufacturing sector was largely non-competitive after years of high tariff protection and various government subsidies. Owned by ZIMCO, most large manufacturing enterprises had long suffered from political interference and ill-conceived or inadequate investment. By 1990, most firms were operating at less than half their installed capacity.

Agriculture was only in slightly better shape. The vast potential of Zambian agriculture has long been an adage of faith among Zambian observers. Yet, only 16 percent of an estimated 9 million hectares of cultivable land was regularly exploited in the late 1980s and only six percent of the irrigation potential, estimated at some 2.5 to 3 million hectares, was being exploited. Yet, until the waning days of the Second Republic, policy had been systematically biased against agriculture for political reasons. In particular, successive governments maintained producer prices artificially low in order to maintain the purchasing power of urban constituencies. Most crops fetched prices that were well below border prices and rural/urban terms of trade fell by 54 percent between 1964 and 1973 and 23 percent between 1974 and 1980 (Gulhati, 1989, p.20). As a result, agricultural growth was consistently disappointing, with an average annual rate of 2.06 percent between 1966 and 1974, and of 0.31 percent between 1975 and 1982.

Agriculture performed relatively well in the 1980s, however, in part because the government began to improve producer price incentives in order to stimulate growth in this sector. The rate of growth averaged some 3.96 percent between 1983 and 1990. However, output still lagged far behind its potential, as suggested by the fact that there was virtually no productivity growth in the sector during the 1970s and 1980s.

The Political Legacy: The terrible state of the economy and the disastrous impact of past UNIP policy did provide the economic reformers in the new government with room to manoeuver in two distinct ways.

First, since most Zambians blamed the old government for its hardships, the new government enjoyed a grace period in which it would not be blamed for the effects of its own policies. This gave it a window of opportunity in which to effectuate politically difficult reforms which an incumbent government would not have enjoyed. The reformers in the new government were conscious of the importance of taking advantage of this "honeymoon", to undertake the difficult but necessary measures as soon as possible after coming to power, hoping that the reforms would have started to reap benefits by the time the population began to hold the MMD government responsible for the state of the economy (Interviews, Lusaka, June 1994).

Second, the failure of past attempts to overcome the crisis generated support for a more radical approach. For example, the fact that inflation was now dangerously close to hyperinflation levels lent credence to arguments for the need for a much more stringent control of public spending and the money supply. A distinction must be made in this respect between the general public and individuals within the permanent bureaucracy. The general public would be unlikely to link inflation and the policies of the Central Bank, for example, but it can be said that the depth of the crisis and the patent failure of current policies to protect people's standard of living made the population receptive to basic changes in economic policies. Public opinion research makes clear, for example that by early 1992, asked to choose between price controls and shortages, on the one hand, and high prices but goods on the shelf, a clear majority chose the latter (see Bratton and Liatto-Katundu, 1994).

In the administration, the failures of reform attempts during the Second Republic were better understood for having been witnessed up close. Civil servants derived lessons from the different policy experiments during the 1980s. In their account of reform attempts in the late 1980s, Bates and Collier argue that the attempt to design and implement the NERP, an alternative program to the IFI reform program between 1987 and 1989, provided policy makers with an extremely valuable learning experience that was instrumental in legitimating orthodox reform after 1989 (Bates and Collier, pp. 423-429). This is a key insight: by grappling with policies and trying to reconcile various policy objectives, policy makers gained valuable experience with how the system worked. They had come to understand why price controls failed to stem inflation or how difficult it was to enforce currency and import regulations to defend the overvalued currency, or why parastatals lost money. By trying to develop alternatives to orthodox economic reform, many came to view it as inevitable, albeit not necessarily desirable.

In addition, and somewhat more cynically, many government officials had learned from the experience of the late 1980s how dependent Zambia had become on external support. After all, the break with the IFIs had resulted in a nearly total drying up of donor finance, virtually condemning the NERP to failure. Some technocrats had come to believe in the economic agenda of fiscal discipline, privatization and liberalization; as many probably had made no such conversion, but had come to view the donors as too powerful to antagonize.

The amount of policy learning acquired during the 1980s was of course not equally distributed through out the administration, but varied according to the backgrounds of the official and their institutional location [12]. First, policy learning was more likely among officials who had undertaken post-graduate training in economics or a related field, particularly in the West abroad. These officials were more likely to be swayed by economic policy arguments, while older and less well educated officials, or those who owed their positions more to UNIP affiliation than to their level of training were more likely to think in political terms and remained at best ambivalent about the need for policy change. Some accepted the need for fiscal and monetary austerity for pragmatic reasons, but few were ideological converts to economic liberalization and privatization.

Second, the policy views of officials in departments which had engaged in extensive policy dialogue with the donors were more likely to have evolved over time. This was true in the Ministry of Finance and in the Central Bank, institutions closely involved in negotiations with the Paris Club and the IMF. It was also true in the Ministry of Agriculture, for example, where the policy dialogue was over a decade old and where USAID's ZATPID project had trained a generation of officials and significantly expanded policy analysis capabilities. Third, policy learning was almost certainly slower in the departments or ministries directly involved in spending and regulatory activities and directly benefiting from the current policy regime in the form of power and resources. Policy learning was clearly slower when its lessons contradicted significant material interests.

The political system increasingly also reflected this changed attitude towards reform and the donors. By the end of the NERP, the pro-reform coalition within UNIP had gained in strength and enjoyed growing legitimacy. UNIP's expanded Central Committee now included successful businessmen, who favored eocnomic reform and were more receptive to criticism of the regime's policies. In August 1990, a special select parliamentary committee approved reform, for example, and attacked the "the centralised policies of the past, with their encouragement of inefficiency, corruption and political patronage" (EIU Country Report, Zambia, No.4, 1990 p.15).

Thus, much of the policy learning that would benefit the MMD had occurred in the last years

[12] The following couple paragraphs are based on largely subjective impressions gained during lengthy interviewing of a large and diverse number of officials in June 1994. They need to be confirmed by a more systematic and objective opinion survey.

of the Second Republic. It is important to realize in this context that a full fledged reform program, the 1990-1993 PFP, was more or less in place at the end of 1991, even if the Bank and IMF had suspended disbursements in September of that year because of non-compliance. As a result, the new MMD government did not have to spend time building consensus behind key elements of the reform program, but could restart the program quickly. The bureaucratic battles had already been fought and largely won on behalf of reform, in the 1988-1990 period.

4. Decision Making in the Third Republic

To understand the economic policy outcomes just described, it is important to focus on the process of decision making, both in terms of the main actors and institutions in government, and the pressure groups that are able to influence policy from the outside. We ask whether and how political liberalization has changed economic policy making in the Third Republic, and how the situation appears to be evolving; what has really changed? What changes can be attributed to democratization specifically, rather than simply to a change in government? We start by focusing on each of the key institutions and their changing role over time.

4. 1. Government Decision making Bodies

The Presidency: First, the role of the Presidency in shaping policy has probably declined in importance, even if it remains central. The president dominated decision making processes in the Second Republic, even if other decision making bodies (such as the Central Committee and the Cabinet -- see below) enjoyed greater latitude than in other, more centralized, presidential systems of the region [13]. All important economic decisions were approved and officially announced by Kaunda, in some cases with little consultation of the relevant ministry [14]. Kaunda maintained his power by, first, manipulation of positions in government; he expertly appointed and removed individuals from key posts as it suited him and to prevent any individual or institution from undermining his own position. Second, he appointed ad hoc committees on the economy, e.g. the National Economic Monitoring and Implementation Committee (NEMIC), which reported directly to him and not to permanent government institutions. Thirdly, he played the UNIP Central Committee and the Cabinet off against each other (see below).

The power of the Presidency has clearly declined in the fledgling Third Republic. In part this probably reflects the democratization process, which decentralizes power and empowers institutions and processes rather than individuals. The June 1991 Third Republic Constitution imposes relatively

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[13] There was thus never the same kind of centralization of power in the presidency as in countries like Ivory Coast, Malawi or Cameroon.

[14] West (p. 19, 1990) reports for example that Kuanda did not consult the Ministry of Finance or the Bank of Zambia before deciding to suspend the foreign exchange auction in January 1987.

minor inhibitions on presidential power (e.g to appoint cabinet minister or to declare states of emergency). The MMD manifesto promised to further circumscribe presidential power, but once in office Chiluba progressively distanced himself from such promises, seemingly becoming more attached to the powers and perquisites of office. It will be interesting to see the extent of presidential powers when the constitution currently being prepared by a national commission is finally completed.

Chiluba's lower profile also reflects the personal circumstances he finds himself in. Some observers point to differences in the leadership styles of Kaunda and Chiluba, the latter being more of a pragmatic consensus builder than the former. This may in part be related to personality, but is also a function of the very different political positions of the two men. Kaunda was the George Washington of Zambia, an unrivaled figure in national politics, legitimated by his international stature in the fight against apartheid, and in complete control of the UNIP apparatus. In contrast, Chiluba was the compromise choice to lead a poorly organized and heterogeneous political coalition kept united by little besides the aim to oust Kaunda from power. Many MMD members remain suspicious of presidential power and want to control the presidency through the party. It will be interesting to see how the power of the presidency evolves over time, since incumbency offers Chiluba many resources and opportunities with which to expand his power and increase his autonomy from the MMD. Chiluba has already begun to make use of patronage resources, for example. But for the time being, it is clear that Chiluba's presidency lacks the clout of its predecessor.

The Party: A second major change lies in the role of the party in power. Unlike UNIP, the MMD plays virtually no economic policy making role. Following the consolidation of the single party system in 1972, the UNIP Central Committee became the supreme decision making body and all government organs were subordinated to it, as embodied in the phrase "the Party and its government". Even cabinet decisions had to be approved by the Central Committee before they could be implemented. A subcommittee of the Central Committee was assigned to each ministerial body and oversaw policy making and policy implementation, creating what amounted to an extra layer of bureaucracy.

In the Third Republic, party and government have been separated. The influence of MMD's National Executive Committee (NEC) over policy has been trivial so far. Although the party has established sectoral committees to elaborate party policies on various issues, these committees have remained largely inactive and have not had significant impact on policy making, which is now entirely initiated in the ministry. In mid 1994, rumors circulated around Lusaka that Chiluba wanted to strengthen these committees in a bid to eventually recreate the UNIP Central Committee system of policy oversight. These rumors probably indicate an intention to reinvigorate on behalf of the presidency what had become a fairly passive organization. While it is not inconceivable that the NEC would gain a significant policy role over time, there are several reasons to believe that it will never be able to replicate the old UNIP system. First, of course, such an evolution would go against the spirit and laws of the multi-party regime now in place, and would arouse the opposition of other parties, the press and in all likelihood the civil service. Second, there is at present no clear correspondence between NEC's positions and those held by different members of the cabinet. Asserting central control over the party and providing it with a policy role would prove controversial within MMD and would almost certainly cause a bruising fight with individual ministers over their control over policy.

The Cabinet: Third, the Cabinet has increased in importance. Kaunda did not centralize power around the Presidency to quite the same extent as many of his peers in African authoritarian regimes. Instead, he played the role of final arbiter and manipulator in a system in which both the Central Committee and the Cabinet were allowed some leeway to debate and initiate policy. In this system, the Central Committee was the most important political institution, but Cabinet remained influential because of its unparalleled bureaucratic and policy expertise. It was useful for Kaunda to keep a balance between the more political Central Committee and the more technocratic cabinet, since he could use one against the other as it suited his own personal needs (Interviews, Lusaka, June 1994; see also West, 1990, pp. 9-11).

Thus, under Kaunda, the Cabinet was never the essentially ceremonial institution that it is in some African presidential system. Nonetheless, the end of the single party and the weakening of the Presidency has clearly reinvigorated the Cabinet. Indeed, one of the peculiar characteristics of Zambian decision making in mid 1994 is how closely it approximated classic cabinet government [15]. In the Second Republic, meetings were held once a month or so, now up to 4 meetings have taken place in a single month. In these regular and often long meetings, the President plays the role of a Prime Minister, *primus inter pares* rather than dominating, presidential style. The Cabinet incorporates the diversity of views represented in the MMD so that there is genuine debate and the president has to persuade and/or build a coalition in order to carry the day (Interviews, Lusaka, June 1994).

Perhaps the best single example of the shift in the relative importance of the Presidency and Cabinet is provided by the fact that various ad hoc committees are now answerable to the latter rather than the former. This is very striking with the Inter-Ministerial Committee on the Economy, the body in charge of monitoring the economic reform program for the government; the presidency is represented on the committee but it is chaired by the Minister of Finance, which takes a clear lead along with the representatives from the Bank and Zambia and the Ministry of Trade, Commerce and Industry.

The strengthening of the Cabinet has several consequences for economic decision making. First, it has strengthened the civil service's influence over policy. The secretariat to the Cabinet, now reinforced with technical support from USAID, organizes the meetings and coordinates procedural matters with the permanent secretaries of each ministry, making it more difficult for the presidency or MMD cadre to shape policy before it reaches the cabinet. Although political considerations have of course not disappeared, the technical dimensions of policy are more likely to be advanced by the permanent secretaries and get a hearing in Cabinet than in the old system.

The strengthening of the civil service's position has both promoted continuity with the Second Republic and facilitated the implementation of the reform program. Although a few were replaced, the MMD has retained most of the senior civil servants who were in charge of economic reform during the Kaunda years. In the reform areas in which they gained extensive experience during the Kaunda regime, such as the removal of agricultural subsidies, exchange rate reforms and agriculture

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[15] There is a large literature on cabinets. See Mackie and Hogwood (1985) and Hennessey (1986), for a good introduction.

marketing liberalization, there was no learning curve to climb when the MMD came to power, and policies could be initiated quickly. However, for policy decisions never tried in the Second Republic, for example privatization, the pace of initiating and implementing policy was slowed down by the inexperience of technocrats.

Second, individual ministers now have greater freedom from presidential and party control to initiate policy. The president continues to influence policy by picking his cabinet, of course, and he has the freedom to replace a minister whose initiatives he disapproves of, but while in office ministers have considerable latitude. In turn, this implies that the pace of specific reforms now depends in no small part on the enthusiasm and ability of individual ministers.

The Legislature: Fourth, democratization has so far done little to strengthen the policy making role of Parliament. Constitutionally, Parliament has the role of monitoring the activities of the executive. In economic affairs, ministries and government departments are financially accountable to parliament. Parliament must approve the budget before it can be implemented and it receives the Auditor General's Report every year on the way the funds are actually spent.

Kaunda tolerated limited criticism within the one-party system, and parliamentarians were occasionally critical of governmental policies, particularly in the later years of the Second Republic, when a group of free market businessmen won elective office. However, Parliament's impact on actual policy was always limited. To preempt criticism, Kaunda appointed an increasing number of members to lucrative government positions. Although parliament questioned the allocation of funds in the budget, its ultimate approval was a foregone conclusion. The Auditor General's reports about fraud, corruption and incompetence were no more than a temporary embarrassment to the responsible ministries and departments whose officials were rarely held accountable.

The weakness of the legislature has persisted in the Third Republic. In part, this results from the dominance of the MMD in parliament, and the weakness of the opposition, limited in the original parliament to 25 seats out of the total of 150 [16]. MMD members initially appeared willing to question the government on its policies and practices, as the exigencies of reelection changed MP attitudes and probably increased their independence. But the historical weakness of the institution has been difficult to overcome. Its operating budget is woefully inadequate, and backbenchers complain of a lack of rudimentary equipment and basic resources such as a legislative library (Interviews, Lusaka, June 1994). Few back benchers have much legislative experience and they have often been outmaneuvered by the conservative speaker of the House, Robson Nabulyato, who appears to want to maintain the House's traditional deference to the executive. Attempts to investigate executive abuses has revealed parliament's absence of real power if and when the government chooses to ignore the institution [17]. Chiluba has already begun to resort to the same strategy as Kaunda, attempting to coopt a number of critical parliamentarians by appointing them to government positions. By the middle of 1994, some 43 MMD MPs had been named deputy minister, in addition to the 23 ministers of government and the handful of MPs in official parliamentary functions. The

[16] Since then, by-elections have reduced MMD's majority by 6 seats.

[17] See Bach's (1994) assessment of Parliamentary reform.

large disparity in salary and requisites between a deputy minister and a backbencher -- who earned the equivalent of some 150 US dollars a month after taxes [18] -- is enough to tempt most MMD MPs to toe the government's line (Interviews, Lusaka, June 1994).

4. 2. External Pressures on Policy Makers

Three domestic groups have long been active in lobbying the government on economic policy: The Zambia National Farmers Union (ZNFU) or the farmers' lobby, The Zambia Confederation of Chambers of Commerce and Industry (ZACCI) or the business lobby, and the Zambia Congress of Trade Unions (ZCTU) or the workers' lobby. In addition, the donors have wielded considerable influence on behalf of specific policies. Finally, democratization has empowered a number of other actors within civil society, such as the media and especially the print press. Has the influence on policy of these groups increased in the more democratic and open political climate of the Third Republic? We argue that the influence of the business lobby and donors has increased while the influence of the farmers and workers lobby appears to have declined, but that these changes are only indirectly related to democratization.

Organized Labor: The ZCTU claims 350,000 members, or some 70 percent of formal sector employment, which makes it one of the strongest labor movements in Sub-Saharan Africa. Yet, only 9.7 percent of the total labor force is in formal employment, some 9.7 percent, suggesting that organized labor defends its membership's interests from a relatively weak economic position.

Zambian labor history is intimately tied to the country's mining sector. The ability of mine workers to organize themselves on behalf of better wages and benefits was the catalyst for the growth of unionism in the 1940s and 1950s. The unions played a key role in the independence movement, but have been at odds with government through out the post-independence period, not least because the government has been the biggest employer in the country. The government created ZCTU through the Trade Union and Dispute Act of 1964, to try and control unions under the aegis of UNIP. The union leadership that emerged during the 1970s, notably Newstead Zimba and Frederick Chiluba, opposed the close alliance with UNIP, however, and pursued an increasingly confrontational strategy with the government regarding labor and economic issues.

It was widely expected that the influence of ZCTU would increase in the Third Republic not only because of its role in the MMD's rise to power and the fact that the president came from its ranks, but also because it was assumed that democratization would favor large member organizations. ZCTU has used its considerable organizational capacities well on several occasions. For example, the repeal of the Industrial Relations (1990) Act in 1993 was made possible by its effective lobbying of the government and Zambia Federation of Employers (which was initially opposed to repealing the act), and demonstrated ZCTU's influence.

For several reasons, however, the onset of the Third Republic has not empowered the union movement. First, and most generally, democratization has been cruel to ZCTU. Backed by electoral

[18] By way of comparison, a minister or deputy minister gets a daily allowance of 450 US dollars a day when on mission abroad.

legitimacy, MMD does not fear ZCTU's capacities to organize social unrest nearly as much as UNIP did. In the Second Republic, every major strike raised the specter of political instability and even military intervention given the regime's lack of popularity. As a result, Kaunda found it prudent to reach an accommodation with organized labor. Today, on the other hand, Chiluba can reach over the heads of union leaders and draw upon his own electoral mandate among workers.

In addition, the electoral power of ZCTU is limited by the fact that its members are a small proportion of the voting population and almost entirely limited to Lusaka and the Copperbelt. Most parliamentarians have no reason to heed the power of organized labor in their district. Ironically, the defects of the new democracy also circumscribe ZCTU's influence. In the absence of effective parliamentary opposition following the MMD landslide of November 1991, ZCTU lacks a credible defection threat with which to gain leverage with MMD.

Second, on balance the government is probably less ideologically sympathetic to the labor movement than its predecessor. Certainly, the power of the economic liberals within cabinet has increased under the MMD. Chiluba and some of his key advisors in the presidency are probably more favorably disposed, but the presidency's power has declined, and even Chiluba seems to be reconciled to the need for some economic reform in a way that was never true of Kaunda. Ironically, Chiluba's familiarity with the labor movement enables him to gauge its strengths and weaknesses better than Kaunda, and to know how far he can push it before it will respond.

Third, the country's worsening economic problems have continued to erode the strength of unions. The high levels of unemployment, the shaky balance of payments situation and the unsustainable government budget deficit all weaken organized labor's bargaining position. The experience at Kafue Textiles Zambia (KTZ) in 1993 is instructive in this regard: workers there had gone on strike to demand wage increases, but management responded by firing workers, citing the unsustainable financial burden posed by the strike. The industrial relations court ruled in favor of the striking workers, making it one of the few legal strikes in recent Zambian history. Nonetheless, KTZ's financial situation had deteriorated to such an extent that the company proved unable to re-instate the dismissed workers, who were instead placed on unpaid leave.

In sum, the political influence of ZCTU in the Third Republic has not reached the levels hoped for by its advocates. The labor leadership was too optimistic, and has yet to adjust fully to the new realities. ZCTU appears to have realized that some reform is inevitable and has become more selective in its opposition to government reform policies. For example, it has officially accepted as inevitable redundancies arising from parastatal and civil service reform (See, for example, International Confederation of Free Trade Unions, 1992, pp. 10-12). Instead, it has concentrated on defending the expensive redundancy packages agreed to for the affected workers. These packages continue to enjoy wide support within the government and among donors, even though their prohibitive cost has all but stopped civil service reform and greatly complicated privatization of several parastatals.

The Business Lobby: Because of his personal roots in Fabian socialism, as well as because of the historical domination of business by non-Africans, Kaunda viewed businessmen with suspicion and the Second Republic's economic policies were often downright harmful to private business. UNIP's leadership code prohibited politicians from "directly operating" businesses and thereby keeping the business and political worlds at arms length, even if the regime tolerated considerable rent-seeking.

It should thus come as no surprise that the business community overwhelmingly supported the democratization process and MMD's rise to power. Although the MMD drew its organizational strength from the labor movement, its campaign finances and its international credibility -- notably with the donors -- were provided by business. In the first cabinet, as a result, individuals associated with the business community were put in charge of all the economic ministries (Finance, Commerce and Industry, Agriculture, Transport and Communications, and Works and Supply).

The onset of the Third Republic boosted the morale of the business community, reinvigorated a number of small business associations that had been ineffectual during the Second Republic and prompted them into taking a much more active stance on economic policy issues. In particular, the Zambian Association of Chambers of Commerce and Industry (ZACCI) has parlayed the government's new receptiveness to business into gaining a prominent position for itself. ZACCI has openly commented on and criticized government policy in the press, notably in the pages of "*Profit Magazine*", the glossy monthly magazine it has published since 1992.

Moreover, interaction between business and government has been increased substantially, through informal contacts, a number of public policy fora such as conferences and workshops, and the representation of business in a number of public bodies. Thus, ZACCI is represented on the boards of some 21 public organizations, including the Zambian Privatization Agency (ZPA), the Zambia Revenue Authority (ZRA) and the National Economic Advisory Board (NEAB). How much of an impact on policy outcomes this interaction between government and business will have is uncertain, but it does signal a growing public legitimacy for business that is in sharp contrast to the first three decades of independence.

Yet, the full impact of the business lobby on economic reform is still difficult to evaluate. First, it does not always speak with one voice. While the entire business community favors certain reforms, most notably the cash budget, the fight against inflation and privatization, many reforms are opposed by at least some businessmen. Many businesses have been hurt by the side effects of stabilization, such as the extremely high real interest rates that prevailed during 1993. ZACCI has sought various forms of compensation which the cash-strapped government is hesitant to provide. Business is itself divided on other economic issues, which do not affect all business in like fashion. For example, the government's trade liberalization policies were enthusiastically supported by the trading sector which they favored, but led to bitter accusations by manufacturers, long used to protection, that the government was out to destroy industry.

The Farmer's Lobby: Farmers could not claim to enjoy significant influence during the Second Republic. A small, largely white, commercial farm sector was represented by the Commercial Farmers' Bureau (CFB). While well organized, the CFB's influence was limited by its historical role as a white settler organization and its small size, with perhaps a thousand members. On the other hand, the government endeavored to control the small farmer sector by allowing UNIP to dominate the rural cooperative movement from the top in order to turn it into the dominant vehicle for rural patronage and rent seeking (See below). Cooperatives were put in charge of much input distribution, a task which enormously facilitated their political mission for UNIP. The cooperative movement was so tightly controlled by UNIP that the average small farmer probably did not distinguish cooperative structures from state ones (interviews, Lusaka, June 1994). Thus, despite the million adherents in its constituent cooperatives, the Zambian Cooperative Federation (ZCF) was not a significant pressure group for agricultural policy. The regime's resulting urban bias is well known; until the mid 1980s, the terms of trade evolved against agriculture, which stagnated until policy improvements began to emerge during the 1980s, under the impulsion of donor pressure, rather than because of effective lobbying by farmers.

Since 1991, the situation has become more complex. First, the MMD's first Minister of Agriculture, Guy Scott, a commercial farmer and a outspoken free-marketeer, was able to implement most of the measures that the donors and CFB had long lobbied for. As a result, economic reform has advanced further in agriculture than in any other sector (see below).

Second, however, the sector continues to suffer from the weakness of its interest groups. In 1992, the CFB became the Zambian National Farmers Union (ZNFU) and announced its intention to represent the interest of all farmers more actively. At the same time, ZNFU's strong sense of independence has led it to refuse to accept technical assistance from the donors, a strategy which has ensured its unimpeachable reputation, but which may also have limited its influence (Interviews, Lusaka, June 1994). Donors and ministry officials complain of ZNFU's limited technical and policy analysis capacities, for example, which are viewed as undermining the union's ability to participate in policy debate despite its widely respected knowledge of farm level conditions. ZNFU has been unable to increase its membership significantly, despite the leadership's awareness of the need to reach out to the so called "emergent farmers", the 120,000 or so small scale commercial farmers with a farm size of between 10 and 20 hectares [19]. Its membership has been increasing slowly in recent years, but remains limited to some 1,600 members in mid 1994.

Ironically, the liberalization already accomplished in agriculture has probably served to limit ZNFU's ability to influence policy. Under the old control regime, ZNFU was used to lobbying the government on the level of various prices and subsidies, notably the maize price. These annual price setting exercises provided ZNFU with an institutionalized bargaining relationship with the government. With the onset of price setting by the market rather than by the state, ZNFU has lost much of that relationship. While its access to government decision makers is probably better than it was before 1991, it has to develop a new agenda of issues to take up with the government on behalf of its members [20].

For its part, the cooperative movement is in disarray since the demise of the single party. UNIP's grip has loosened, and has not been fully replaced by MMD, encouraging a number of reformers within the ZCF to try to democratize the cooperatives and empower individual adherents. The reformers remain weak however, and the cooperatives' role in input distribution to small farmers

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[19] In interviews, ZNFU claimed that 75 percent of its members were "small farmers". Agricultural statistics cite some 26,000 commercial farmers (farms above 30 hectares) in addition to emergent farmers, so in all likelihood its membership does not even include the great majority of commercial farmers.

[20] This is not unique to Zambia. See Bratton (1994, p. 28) for similar comments regarding farmer organizations in Zimbabwe.

remains important enough, even if on a smaller scale than at their peak a decade ago, to entice various rent seeking entrepreneurs and politicians to try to maintain control of the sector.

A comparison with neighboring Zimbabwe indicates both the potential power farmer organizations in Zambia could enjoy, and how little of that potential they have so far realized [21]. The present situation is extremely fluid: it is possible to imagine different scenarios under which both the cooperative movement and ZNFU could singly or in alliance with each other dramatically gain in power and influence. It is however, equally possible to imagine neither organization reaching its potential, ZNFU remaining the voice of a handful of big farmers and ZCF victimized by the rent seeking and corruption of its leaders.

The Donors: Foreign donors should be considered in this section along domestic interest groups because their financial weight as well as their technical and policy expertise provide them with a great deal of influence over policy. Since independence, they have lobbied the government on policy issues, although disagreements between them probably limited their influence until the rise in donor coordination during the 1980s; in particular, the emergence of cross-conditionality then, in which with donors and creditors insisted on an IMF programme before they would lend to Zambia, made it much more onerous for the Kaunda regime to resist reforms. Zambia's deepening crisis and the concomitant dependence on donor finance has increased donor leverage on policy issues.

In addition, the Chiluba government has adopted a much less contentious attitude towards the donors than had the Kaunda government, openly courting them in order to increase western financial flows. There seems to be an almost uncritical acceptance of the donor policy agenda across a broad number of economic issues. The major donors, most notably USAID and the World Bank, have engaged in a regular and seemingly quite cordial policy dialogue with some members of the cabinet in which weekly conversations are not unusual. Below cabinet level, technocrats in the economic ministries in the capital have engaged in a permanent policy dialogue with donor experts and visiting missions. Indeed, some have become essentially clients of the donors, benefiting from a wide variety of donor funded perks such as trips abroad or project cars, that create further incentives to accommodate the donor agenda. During the 1980s, however, relations were conditioned by the hostility of the top Zambian leadership to the donor agenda. Today, official acceptance is such that pro-reform technocrats can openly tout the donor agenda.

As described above, the Third Republic has witnessed the emergence of a slightly more technocratic decision making process. The MMD came to power at the time when donor leverage was increasing and the lessons from the policy experiments of the 1980s strengthened the hand of the reformers within the MMD who were given considerable latitude to develop policy. Indeed, some donor experts have become highly visible in certain ministries and closely associated with key reforms. The press in Lusaka has referred to "Mwanza's Harvard boys" to designate the HIID team working with the senior civil servant, Jacob Mwanza, who is in charge of the ministry's stabilization policies. That the reform program is so closely associated with the donors and their allies within government carries certain dangers, of course. Critics of the program can score political points by suggesting that the government is slavishly following policies set in Washington or by the Harvard

[21] On Zimbabwe, see Herbst (1987) and Bratton (1987).

Boys, and that as a result policies serve the interests of the donors, but not of Zambia [22].

In any event, the foregoing indicates the extent to which the influence of the donors on policy has increased in the Third Republic. Nonetheless, the reformers' close relations with the donor community may sometimes give an exaggerated sense of the government's overall commitment to reform. It is well to remember that the donors focus their attention on their allies in government, and that much of the political elite actually enjoy few contacts with the donors and have remained unconvinced of the desirability of their proposals. This is striking for example of the parastatal sector, where senior officials have remained largely impervious to donor calls for privatization. The fact that these officials have been able to paralyse the reform program is ample testimony to their influence in government (see below) yet the donor community does not appear to have established any kind of personal rapport or policy dialogue with them.

It is important, in addition, to realize that donor influence has not been enhanced by democratization, which on balance would be expected to weaken donor influence by making the government accountable to a larger number of domestic institutions and pressure groups. Indeed, if and when democratic institutions such as the legislature gain in strength, one would expect them to contest donor conditionality with growing asperity.

Civil Society: Finally, democratization would be expected to enhance the influence of a number of other institutions of civil society, including various NGOs, the press, and church associations. The press in particular must be singled out, as the evidence from many different democratic political systems suggests that it plays an absolutely key role in enforcing governmental accountability. The press in Zambia since 1991 has played a watch-dog role, publishing information about government corruption and incompetence that has deeply embarrassed the government on several occasions and has probably served to temper certain abuses. New publications like the *Weekly Post* have had a strong impact on governance issues, where they clearly have a wide audience. The reporting of economic issues has been more uneven, with in depth coverage limited to the financial press (*The Financial Mail* and *Profit Magazine* in particular), which enjoys a much smaller audience. On the other hand, the government has retained control of the country's only two daily newspapers, and continues to monopolize television and radio, limiting the effective impact of the independent media's new freedom.

The press and other civic associations have certainly flowered in recent years, although only the press can attribute its recent growth to political liberalization; all over Africa, NGOs have increased in size thanks to donor support and the progressive withdrawal of the state from a number of social, community and welfare functions it can no longer afford to sustain. By definition, democratic states have a greater tolerance for institutional pluralism, but even under Kaunda, the government found it convenient to allow various NGOs and community associations to increase their activities, as long

[22] Such critics typically go on to suggest in vague terms that there is an alternative economic reform program that would better serve Zambia, but that the donors oppose because it would hurt western interests. See for example, Ernest Mtamboh "SAP: Ill conceived, Allien and Misguided", in *Profit Magazine* January 1994, pp. 18-19; and "Special Report", in *The Weekly Post*, October 8-14, 1993.

as they did not threaten governmental and party prerogatives.

This rapid overview of the process of economic policy decision making in the Third Republic suggests a number of significant changes from the past. First, and despite several caveats, we have underscored the existence of a more favorable environment for economic reform, characterized by the strengthening of the technocrats and the weakening of the party apparatchik, the relative eclipse of the presidency in favor of the cabinet, and the continued weakness of the legislature. Second, we have argued that some interest groups have increased their influence, notably the business lobby, but that overall they rarely exert a dominant impact on policy making. Moreover, the most significant pressure group of the Second Republic, organized labor has probably lost influence. Armed with this information, we turn to an analysis of the process of economic reform between 1992 and 1994.

5. The Reform Program, 1992-1994

5. 1. The MMD Reform Program

The economic situation had deteriorated dramatically in the second half of 1991, as Kaunda had forsaken the reform program agreed to with the donors in a doomed attempt to win reelection. Thus, civil service salaries had been increased by 100 percent right before the election, and the state had provided UNIP with billions of Kwacha for discretionary spending for the campaign. As a result, the fiscal situation was worsening rapidly and inflation was picking up speed. Estimated at some 37 percent in 1985, inflation had climbed to 93 percent in 1990, and was running at some 190 percent when the MMD entered power.

It was thus important for the MMD to move quickly to bring back the economy under control. Luckily, the previous government had already negotiated a complete reform program with the donors, which remained essentially viable despite its suspension in September 1991 and the accumulation of arrears which had to be settled before lending could resume. Indeed, a donor funded team of experts from the Harvard International Institute for Development (HIID) was already ensconced in the Ministry of Finance to increase the reform team's analytical capacity.

The Policy Framework Paper (PFP) agreed to with the World Bank in 1990 included all of the significant reform measures which the MMD would implement, including (World Bank, 1992c, p. 6):

a. Price decontrols of all products (except maize) and inputs;
b. Exchange rate adjustment in real terms and elimination of exchange rate restrictions;
c. Liberalization of export and import trade, while providing export incentives;
d. Fiscal austerity measures to reduce the budget deficit and control inflation;
e. Monetary policy measures to adjust interest rates and tighten monetary policy;
f. Reform of public investment program to focus on resource allocation to priority sectors and programs;
g. Reform of civil service and parastatals to improve efficiency and performance;
h. A privatization program.

The donors resumed lending to Zambia within a couple months of Chiluba's arrival in power, on the basis of the PFP [23]. The MMD's first year in power was characterized by significant progress on the reform front, in particular on macro-economic stabilization, to which we now turn.

5. 2. The Implementation of Stabilization

The MMD government viewed a strenuous attack on inflation as its most urgent task to restore macroeconomic equilibrium. To achieve this, the government immediately instituted a tough monetary policy. Money supply growth was sharply reduced and real interest rates increased. In January 1993, the BOZ introduced the Treasury Bill Tender system, to provide a market mechanism for determining interest rates. Interest rates rose rapidly through August 1993, with commercial lending rates reaching as high as 139.3 percent. They then began a slow decline in nominal terms, falling to 69.3 percent in July 1994, as inflation receded. Real rates remained high, however, so that investors began to hold Kwacha denominated assets, taking pressure off the exchange rate.

Second, the government moved equally fast to free up the exchange rate regime, as the balance of payments situation improved. Exchange rate liberalization coupled with the government's monetary policy led to wide fluctuations in interest rates and exchange rates [24], which caused much concern (See Adam, 1993, for example), but appear in retrospect to have been the perverse temporary side effects of the rapid move to a much lower level of inflation. The elimination of the Exchange Control Act in January 1994 meant that the liberalization of foreign exchange was now complete and that there were no restrictions on the free movement of capital by Zambians and foreigners across Zambian borders.

Third, and most importantly, the budget deficit was tackled aggressively. In 1991, the budget deficit had stood at 7.4 percent of GDP. Thanks to the MMD's efforts, it declined to 2.2 percent in 1992, and only 0.4 percent once drought related expenditure were excluded. By early 1994, the government appeared on its way to a budget surplus. The key measure was the removal of maize subsidies.

The Removal of Maize Consumer Subsidies: The question of maize subsidies dominated the debate on economic reforms through out the 1980s, as it was clear that the budgetary weight of these subsidies constituted a major constraint on the ability of the government to direct resources towards more productive activities. As a result, their removal featured prominently in donor conditionality, yet reform attempts had resulted in urban riots in December 1986 and June 1990 [25]. By the end of the Second Republic, it was widely believed that trying again to remove them would amount to political suicide. The MMD government was nonetheless able to remove all maize subsidies within a year of attaining power without any political turmoil. This section attempts to account for both the

[23] An updated PFP was prepared in February 1992, forming the basis for an Economic Recovery Credit from the World Bank, the first tranche of which was disbursed in March.

[24] After depreciating between January and July 1993, when it peaked at K 560 per US dollar, the exchange rate appreciated to K340 per US dollar in September, before settling back down to K650 in January 1994.

[25] Maize subsidy politics are well covered in West (1991), Bratton (1994) and Gulhati (1989).

past failures to remove maize consumer subsidies and the MMD government's seeming ease in doing it. Below, we discuss the related issue of maize marketing reform.

Mealie meal consumption was subsidized to benefit UNIP's urban constituencies, particularly the unionized workers in Lusaka and the Copperbelt. Cheap food prices were moreover an important mechanism to contain wage demands, particularly after the government adopted the wage restraint policy in 1969/70. As mealie meal subsidies increased in proportion to the typical Zambian household's budget, their removal became an increasingly vital political issue. The ZCTU had pressured the government to maintain the subsidies as early as 1974 (Gulhati, 1989, p. 27). Indeed, it was the unions that took the lead in exerting pressures on the state to maintain them, even if the main beneficiaries of the subsidies were probably urban populations in the informal sector, particularly after the introduction of the coupon system in the late 1980s. Meanwhile, the UNIP leadership remained divided about their desirability both on ideological and political grounds despite their growing fiscal cost (Gulhati, 1989, p.48).

Each year during the Second Republic, a committee at the Ministry of Agriculture, with representatives from millers, NAMBOARD and ZCF and the Prices and Incomes Commission and following consultation with the ZNFU, prepared a cabinet memorandum on the impact of different subsidy options on both agricultural production and the budget. The cabinet then decided what the level of subsidy and price would be. Many technocrats working on economic policy realized the disadvantages of subsidies and advised the government to adopt a policy of gradually removing them. In the end, however, the UNIP Central Committee would play a key role in deciding the level (and not merely the policy) of the subsidy, and political considerations would dominate the decision making process.

The question of consumer subsidy reduction featured prominently in IMF's and World Bank's agreements with Zambia before 1991. Changes in the subsidy were introduced; in late 1988, the government increased the price of mealie meal (it would increase sixfold before the end of 1989), and simultaneously introduced a system of food coupons targeted to the poor. Nonetheless, the basic subsidy system remained in place, and its weight on the budget remained on an upward path. Any backlash to the policy would be quickly blamed on the donors, who were routinely blamed for food price increases. The donors' growing impatience on this issue was demonstrated in May 1991 when they rejected Kaunda's request to postpone the removal of maize subsidies for six months, or until after the elections scheduled for that October (EIU, Country Report No.3, 1991, p.3).

During the election campaign, the MMD had met informally with a number of donors and promised to undertake radical reforms, including the removal of maize subsidies. True to its word, one of the first acts of the MMD government was the withdrawal of food coupons in December 1991, and all maize subsidies were ended within a year of the formation of the first MMD government, resulting in a four-fold price increase. In fact, virtually no political protest erupted against these reforms, for several reasons. First, although internal dissensions would soon appear on a number of other policy issues, the new government was solidly united in its resolve to remove subsidies; the reformers dominated the new cabinet and had generated a consensus on mealie meal subsidy reform, in part because of the argument that the cost of the subsidies would continue to cripple the government and prevent the realization of its other objectives. It must be noted that the removal of subsidies did not involve any particularly complicated administrative requirements and could be achieved virtually overnight. Nonetheless, in part because the UNIP leadership was never fully committed to the reform, in both 1986 and 1990 it was carried out clumsily and with little prior preparation [26]. In sharp contrast, the reforms of early 1992 were carried out swiftly and efficiently, with the government going to great pains to make sure that roller meal and large quantities of imported yellow maize be readily available in the markets.

Second, the landslide victory of the MMD gave it a legitimacy and popular support that UNIP had lacked and the MMD took full advantage of the honeymoon period right after the election. It relied on its clear electoral mandate to carry the day. By moving quickly, the MMD ensured that the opposition would not yet have mobilized effectively, while pressure groups like the labor movement that had supported the MMD would take time to redefine their relationship with the government. Certainly, none of the groups that had played a prominent role in opposing previous attempts at subsidy removal confronted the government this time.

Finally, it is partly true that democratization made possible greater open public discussion of economic policy; the costs of the maize subsidies on the economy had been scrutinized for the first time during the election. The MMD had included the removal of maize subsidies in its electoral platform, and some observers have argued that the election had pedagogical value regarding food subsidies [27]. This factor should not be exaggerated, however, since there are reports that MMD politicians also promised to actually lower food prices if elected, when they campaigned in poorer neighborhoods (Interviews, Lusaka, June 1994). In any event, many Zambians were too ill-informed to understand that the elimination of food subsidies would result in substantial food price increases. Even if it is true that the MMD was able to present the removal of maize subsidies as inevitable within informed policy circles -- including perhaps the unions -- and that this helped diffuse opposition, it seems less likely that many Zambians had become convinced by MMD arguments during the election.

The Cash Budget: The elimination of expensive programs such as the consumer maize subsidies was obviously critical to reducing the budget deficit. Nonetheless, the strategy the MMD was able to implement to deal with the bureaucratic and political factors that had ensured regular deficits in the past proved just as important as the elimination of any single program in sustaining the stabilization exercise.

First, the government moved to strengthen budgetary controls. Weak expenditure controls had undermined the budgetary process through out the Second Republic. The World Bank's 1992 Public Expenditure Review noted that 40 percent of budget heads had incurred unconstitutional expenditure

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[26] See West (1991) and Graham (Chapter 6, 1994) for an in depth analysis. For example, in 1986 the Kaunda government failed to inform the millers of the details of the new policy until after the riots had started, virtually ensuring that the millers would increase production of the more profitable breakfast meal. As a result, the still subsidized roller meal virtually disappeared from the market, fueling popular anger.

[27] Carol Graham (Chapter 6, 1994) emphasizes the MMD's skill at presenting its maize meal reform policies to the public.

in 1989. This was attributed to a combination of political interference, lack of accountability, low staff capacity, and weak information management systems (World Bank, 1992c, p. 22). The integration of the UNIP Central Committee into government structures led to a lot of political interference in spending decisions. Financial regulations and procedures were rarely fully applied to spending by politicians. Civil servants were unlikely to refuse requests by Central Committee members for a special imprest, for example, in part because controlling officers appeared to be rarely disciplined for allowing unconstitutional expenditures. The situation was aggravated by a low administrative capacity to monitor government spending, with little qualified staff and archaic accounting systems.

As a result, the donors and reformers in the MMD recognized that one of the keys to mastering the endemic budget deficits was the adoption of measures to depoliticize the budgetary process and to strengthen the monitoring of government spending. In this, they were helped by two developments. First, although far from complete, the separation of the ruling party from the government reduced the systematic political interference in spending decisions that had prevailed during the Second Republic, and reinforced the hand of the permanent bureaucracy during the budgetary process. Second, the MMD government benefited from the capacity building at the Ministry of Finance and Bank of Zambia begun during the 1980s, with the training and recruiting of more qualified Zambians, an increase in donor funded technical assistance and the modernization of the necessary financial management hardware and software [28]. Therefore, by early 1992, the MMD could benefit from a greater bureaucratic capacity to design and implement fiscal and monetary policy. This capacity was still limited [29], but was improving and would prove significant once the appropriate political support had been obtained for real deficit reduction.

The second key to the achievement of budgetary stabilization was the government's decision in 1993 to move to a "cash budget" system, under which government expenditure could only be sanctioned if there was enough revenue to support it at the time. Extraordinary expenditure could only be financed from additional tax measures or expenditure cuts elsewhere. To achieve this, a Data Monitoring Committee (DMC) was formed under the auspices of the Inter-Ministerial Committee (IMC). The DMC consisted of officials from BOZ (research and international operations) and MOF (budget, loans and investments) and initially met every day to examine the status of revenue and expenditure. Any divergences were then reported to the IMC which met every Friday. Spending by a ministry without sufficient revenue to cover it was immediately detected and stopped. The cash budget system has proven to be a critical step in improving accountability and fiscal discipline.

How sustainable is the cash budget? There have been a number of problems along the way such as, for example, the continued budgetary support to the troubled national airline, Zambian Airways,

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[28] For example, the team from the Harvard Institute for International Development (HIID), now based at the Ministry of Finance, was invited by the UNIP government in 1990.

[29] In mid 1994, the Ministry of Finance was still alleged to have only two working photocopy machines, and its budget division was still making many budgetary calculations by hand calculators. (Interviews, Lusaka, June 1994).

or the higher than expected increases in the public wage bill in both 1993 and 1994 [30]. Nonetheless, the government promised a budget surplus by 1994, and essentially delivered it, with the primary budget recording a deficit in 1993 equivalent to 2 percent of GDP and a forecasted surplus of 0.3 percent of GDP for 1994, at the time of writing. The government has publicly renewed its commitment to the cash budget on numerous occasions, stating its intention to relax it only when fiscal discipline is ensured and mechanisms to monitor spending well established.

The cash budget has enjoyed strong donor support. Indeed, the donors have used it as an indicator of the government's commitment to economic reform. The Paris Club's decision to substantially increase its balance of payments support to the government since 1992 reflects in large part the credibility gained by sustaining the cash budget. Donor support greatly helps the long-term sustainability of the system since it provides an estimated 70 percent of the resources required for this year's budget. Currently, this donor support strengthens the hand of the Minister of Finance, who strongly supports stabilization. It seems almost certain that any serious break with the cash budget would make the Paris Club process more contentious and lead to a decrease of western public capital. As long as the memory of the last break with the donors during 1987-1989 remains fresh, even the opponents of fiscal austerity in government will hesitate to subvert the cash budget.

It might be noted, moreover, that the same dynamic helps the government fend off domestic political pressures to increase spending. The exigencies of the cash budget provide a permanent rationale for seeking expenditure reductions and revenue increases as the government can blame the cash budget for the tough decisions it has to make. The cash budget system has also resulted in a new and unprecedented interest in the revenue side of government, since increases in expenditure have to be matched by revenues increases. The Zambian Revenue Authority (ZRA), launched with much fanfare in early 1994 with the mandate to improve revenue collection, will owe much of whatever success it achieves to the cash budget, which has for the first time linked the two halves of the budget process in people's minds. The ability of the state to extract revenue from the economy has been on a downward path since the early 1980s, because of growing evasion and fraud. Overall revenue was estimated at 12.8 percent of GDP in 1993, down from some 20 percent a decade earlier. The creation of the ZRA would, the government hoped, increase revenues to 15.5 percent in 1994 and 20 percent by the end of the decade.

The political power of the cash budget comes, indeed, from its intuitive appeal: everyone understands the notion that "you only spend money you have", that the state has to "live within its means". As a result, fiscal discipline has been partly legitimated: what has historically been a soft budget constraint has hardened considerably. In the brief period that it has been in existence, the cash budget has become what Collier (1992) and others have called an "agency of restraint", or an institution which helps to increase the rational management of limited public resources. The classic agency of restraint is the completely independent Central Bank which can fend off pressures to print money, for example, before an election. By mid 1993, the cash budget had become in an intangible manner that kind of institution, endowed with undeniable power.

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[30] In 1994, for example, the wage settlement agreed to with the civil service union amounted to some 30-45 percent increases, even though only 12 billion Kwacha had been budgeted for the, equivalent of a 12 percent pay increase.

Stabilization and Donor Support: As a result of these stabilization measures, inflation began to subside. It had continued to increase, reaching an annualized rate of 284 percent in the first half of 1993, but began a sharp decline in the second half of 1993, to an annualized rate of 10 percent in the last quarter of that year. By May 1994, the Ministry of Finance was targeting 10 percent inflation for the year (See Ministry of Finance, 1994, p. 4). Reducing inflation had been the government's top priority, but it had promised a rapid return to positive economic growth. As it turned out, GDP was estimated to have decreased by 2.77 percent in 1992, and then to have rebounded to 4.1 percent growth the following year, thanks in part to the bumper agricultural crop that year.

Table 4: External Assistance to Zambia 1991-1994
(in US $ Millions)

	1991	1992	1993[a]	1994[b]
1. External Assistance	786	928	623	979
World Bank Non-Project	202	165	144	276
Other BOP Support	264	326	155	353
Commodity Assistance	76	246	90	50
Project Assistance	244	191	234	300
2. Net Resource Transfer				
External Assistance	786	928	623	979
Debt Relief	1,158	551	359	260
Total External Financing	1,944	1,479	982	1,239
External Debt Service	1,841	926	710	682
Net Transfer to Zambia	103	553	272	557

[a] estimate; [b] projected
Source: GRZ (Office of the President), (1994).

The donors rewarded the government's stabilization efforts with generous financial assistance. As Table 4 indicates, the donors provided considerable food aid to overcome the drought in 1992, then external assistance declined in 1993, before sharply rebounding in 1994.

The Sustainability of Stabilization: Thus, Zambia had achieved considerable progress by mid 1994 in stabilizing its public finances, and was as a result receiving considerable support from the donors. How sustainable is this progress? Several issues on the horizon are worth reflecting upon. First, although there appears to be a wide acceptance of the basic principle of the cash budget, complicated technical and accounting issues can create controversy over its actual implementation. Given how different their incentives are, regular disputes are bound to arise between the Ministry of Finance and the Bank of Zambia, on the one hand, and the spending ministries on the other, over interpretation of the cash budget's rules. As long as the government is committed to stabilization, these controversies result in marginal and inconsequential departures from the letter of the cash budget. Yet, ambiguity undermines the logic of the cash budget, which owes its power to its simplicity, and a government less committed to stabilization could quickly allow these ambiguities to subvert its spirit.

Second, there remain extremely powerful spending pressures on the government. First are the various pressures by various constituencies. Organized labor will for example continue to lobby for salary increases that would break the budget. In 1994, for example, the government buckled under the pressure and raised public sector salaries by 30-45 percent, well over twice what had been foreseen. Such wage pressures are sure to increase as the 1996 elections draw near. Government officials have proposed that salary negotiations each year be initiated and concluded early enough to be integrated in the budgetary process, in order to place them within the logic of the cash budget. Nonetheless, as long as inflation continues to eat at the purchasing power of wage earners, wage demands will be acrimonious and threatening to the budget, and it will be tempting for politicians to forsake the principle of budgetary balance. In addition, as discussed above, agriculture will in all likelihood press for government finance for several years to come, and these pressures will increase as the 1996 election approaches. Retrenchment of the civil service will similarly be extremely expensive, at least if the government continues to accept the current severance package negotiated with the unions.

In general, the problem is that the cash budget is an extremely blunt instrument, critical in bringing down the deficit and by extension inflation, but of no help in establishing or altering development priorities. Deciding the right mix of consumption and investment needed to promote development, given limited resources, is inherently a political process, in which the technocrats who have sustained the cash budget will not play a significant role. In sum, it can not help the government promote structural transformation of the economy, which will continue to require a fundamental reorientation of government spending. It remained to be seen in mid 1994 whether the government was capable of implementing such a reorientation.

Aided by donor generosity, progress on stabilization has thus been significant and impressive, at least by the standards of the region. By mid 1994, Zambia could claim to have one of the most liberal foreign exchange regimes in Africa, and an enviable record in terms of inflation and fiscal probity.

5. 3. The Implementation of Structural Reforms

Progress has been much slower in a host of reform areas which did not immediately affect the government's stabilization exercise, but without which long term sustainable economic growth would be undermined. In these areas, the MMD has made uneven progress, despite its initially ambitious proposals. We describe several different reform areas, going from the more successful efforts in agriculture to the less successful privatization program.

Agricultural Marketing Liberalization: Throughout the Second Republic, as we have seen, political factors dictated policies which hampered growth in the agricultural sector. This was particularly true for maize marketing, in which the government enforced a marketing monopoly as well as a uniform pan-territorial and pan-temporal pricing system. The policy created disincentives for the most profitable farms on the rail line and subsidized farms in remote areas far from consumption centers. As a result of this policy apparatus, maize production dominated the sector to an astonishing extent, accounting for about 70 percent of land cropped and 85 percent of crop production (The World Bank, 1993b, p. 25), to the detriment of other crops in which the country enjoyed a clear comparative advantage.

Yet these policies proved acceptable to UNIP largely for political reasons. There was no effective lobby for higher producer prices. The ZNFU constantly spoke out against the array of subsidies involving maize, but its impact was limited by the fact that it did not speak for most farmers, and the rise of the UNIP controlled cooperative movement in the 1970s weakened ZNFU. White commercial farmers and emergent farmers were outside UNIP's natural rural constituencies in Northern and Eastern Provinces and their preference for free producer prices was tempered by the various selective input subsidies they received from government. In any event, UNIP's strongest support came from the urban population of the Copperbelt and Lusaka (Bates and Collier, 1993).

The manifest failure of these policies to promote agricultural development ushered in calls for reform by the early 1980s, first by the donors and increasingly by Zambians themselves, so that timid and partial reforms were introduced in the last decade of the Second Republic. Producer prices were raised substantially in 1982, and various attempts were made to improve marketing arrangements, including the liquidation of NAMBOARD in 1988. The Agricultural Marketing Act of May 1989 substantially liberalized the sector, with the key exception of maize and fertilizer which remained under state controls. In part as a result of these reforms, agricultural production growth started to pick up, particularly in the commercial farm sector. Annual production growth averaged 3.96 percent between 1983 and 1990.

Perhaps most importantly, policy debates and reform attempts generated useful policy learning among the Ministry of Agriculture's senior civil servants, a process which was accelerated thanks to various donor efforts to improve policy making capacity. Thus, the USAID funded project, the Zambia Agricultural Training, Planning and Institutional Development Project (ZATPID), provided technical assistance to the Ministry of Agriculture throughout the late 1980s, increasing its ability to monitor developments in the field and assess different policy options. By the early 1990s, most of the Ministry's senior civil servants, many of whom had received overseas training under the project's auspices, had become supporters of agricultural sector liberalization (Interviews, Lusaka, June 1994).

Despite the progress made liberalizing the agricultural sector, however, little had been achieved on the biggest single issue, the maize sub-sector. Guy Scott, the MMD's first Minister of Agriculture and a significant commercial farmer himself, made no secret of his intention to pursue maize marketing liberalization. Moreover, World Bank estimates that agriculture had the potential to grow by 7.5 percent per annum between 1993 and 2000 (The World Bank, 1993b), suggested to all observers that a healthy and growing agriculture would be essential to the government's economic recovery objectives, and needed to be reformed as quickly as possible.

The 1991/92 season was characterized by drought, however, requiring large scale intervention by the government and donors to provide relief and prevent famine, and preventing the implementation of reform. However, they proceeded the following year as promised and by the start of the 1993/94 season, the government could boast that the reforms were fully implemented. All maize production and marketing subsidies had been removed from the budget, and maize marketing was now in principle determined by market forces. True, the government still set grain bag prices and appointed buying agents, for example, leading to accusations of political interference. True, the cooperatives were still involved in input distribution. Nonetheless, significant progress had been achieved in a short time.

Problems soon emerged, however, as the sector's rapid liberalization occasioned significant transition problems and threatened the sustainability of reform (Ministry of Agriculture, 1993). As might be expected after several decades of intense government intervention, the private sector did not immediately replace government in a number of areas. Private small scale milling operations began to multiply and compete with the large-scale mills that had previously enjoyed a monopoly. On the other hand, the private sector was slow to invest in storage facilities, while seasonal and regional price differences were not emerging as fast has had been hoped (GRZ, Ministry of Agriculture, 1993). Confusion was added to by the continued existence of the 1989 Agricultural marketing Act. Thus, some private agents thought that the announced "floor price" was actually the "fixed price", an impression the government appointed buying agents did little to dispel.

These transitional problems were moreover greatly exacerbated by the succession of a devastating drought in 1991/92 with a bumper crop in 1992/93, in which farmers produced 18 million bags of maize and 71,000 tons of wheat. The maize marketing surplus was expected to be about 11 million bags, once on-farm consumption was taken into account. Thus, on the one hand, the bumper crop sorely tested the capacities of the new, evolving production and marketing structures, while on the other hand, farmers entered the 1992/93 season with pressing financial needs. As a result, the sector was particularly vulnerable to the severe credit squeeze that emerged in 1993 because of the government's stabilization exercise. Extremely high interest rates and the cash budget put a strain on marketing finance for the 1992/93 crop, which in turn had disastrous consequences for the ability of the system to finance the 1993/94 crop [31]. By the end of October 1993, the balances owed to farmers had reached some K 23 billion, a number of important commercial farms were bankrupt, and the 1994 harvest was at risk. The government was forced to introduce an emergency system of Rediscountable Promissory Notes/Forward Sales Contracts to cover the financial gap, and reduce the disruption to the next growing season. The financial obligation thus incurred by the government put a severe strain on the 1994 cash budget but was inevitable given the state of the agricultural sector in late 1993.

These problems undermined confidence in the reform program, and led to calls to reverse

[31] See GRZ (Ministry of Agriculture), 1993, for an in depth analysis of these issues.

liberalization. In an anti-reform backlash, old statist and urban bias reflexes were reasserted through out late 1993. Politicians expressed the fear that liberalization would result in speculatory abuses and excessive consumer food prices. Even within the cabinet, contradictory statements were made about the sustainability of the program and the desirability of rapid liberalization, which only served to confuse economic agents in agriculture about the government's intentions [32]. The Ministry of Agriculture resisted calls for reversing reform and argued that the problems were due to the pace rather than the actual nature of liberalization. It thus proposed a "Transitional Program" in order to more gradually achieve the complete liberalization of the sector. The government would for example establish a "crop storage construction fund" to encourage on farm storage capacity, and it would include a small farm lending program in the budget, some 12 billion K in 1994 to be progressively reduced to zero in 1996, which would effectively subsidize interest rates. At the time of writing, it remained to be seen whether the Transitional Program would be adopted and whether the "temporary" government role it mandates will be phased out as promised or become institutionalized over time.

How can we explain the progress of agricultural marketing reform, both the rapid initial progress and then the problems and calls for reversal? First, the balance of political forces in 1991 clearly favored reform. Most farmers were opposed to the current system and ZNFU had been a loud proponent of liberalization for a number of years. While a negligible voice in UNIP, commercial farm interests were prominently represented in the MMD coalition, and individuals like Guy Scott were instrumental in sensitizing the MMD about rural interests. Reform had been advocated for years by the technocrats in both the Ministry of Agriculture and in the Ministry of Finance as well as by the donors, notably through projects like USAID's ZATPID. In addition, it must be realized that the MMD politicians who otherwise might not favor liberalization were easy to convince about its virtues in this instance because maize subsidies had long been provided through channels strongly linked to UNIP, notably the co-operative movement. The MMD politicians could appreciate the fact that subsidy removal weakened UNIP's position in the countryside.

The reasons for the loss of momentum of the reform program are also multiple. First and most generally, apart from the donors, the attachment to liberalization was not deep among most domestic actors involved with agricultural policy. The chaos prevailing in the sector in 1993 made some farmers nostalgic for the security of "the bad old days", and others worry that the new liberal regime would offer them no safety net or protection from natural calamities such as drought. Similarly, pronouncements from Chiluba himself but also from other cabinet members about the importance of low food prices for consumers and the need to prevent price gouging by commercial farmers suggested that anti-farm prejudices remained quite strong within the MMD (Ibid).

Secondly, the reform's implementation exhibited the dangers of cabinet government, in which one sector's reforms were pushed essentially by one ministry without the complete understanding -- let alone support -- of the rest of the cabinet. Throughout 1993, Cabinet members did not have a comprehensive view of the new maize policy, resulting in a series of contradictory ministerial statements at critical junctures in the marketing season, which threw private agents into confusion about government intentions and the sustainability of the reform process.

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[32] See for example, "The Mad Maize Merry-go-Round", in *Profit Magazine*, August 1993, p. 12-13.

The larger problem related to timing and the difficulty of trying to undertake structural reforms while undergoing a tough macro-economic stabilization program. The government's strict austerity fiscal and monetary stance, dictated by the overarching objective of reigning-in inflation, complicated structural reform in agriculture. In particular, macro-policy was at least partly responsible for the sector's enormous financial difficulties. Most economists now agree that most successful cases of structural adjustment in the Third World followed a prior successful stabilization exercise (See Corbo, Fischer and Webb, 1992). By attempting to achieve them simultaneously, the government was running a significant risk that they would come into conflict. Yet, obviously, it was in the interest of the government to take advantage of its popularity and press ahead with structural reforms in agriculture. As the sector with the strongest growth potential, rapid growth in agriculture was key to the government's overall economic strategy to overcome the crisis.

By mid 1993, therefore, the government found itself in a tricky situation: a sudden adjustment to a liberalized policy environment was proving to have dangerous consequences for many of the agents in the sector. Thus, prudence suggested that governments remain involved enough in agriculture during a transition phase to cushion and protect private agents from the full impact of change. At the same time, the government needed to demonstrate enough commitment to policy reform to induce new behavior on the part of private agents, who had to start undertaking what had been governmental functions and to invest capital in the sector if the reforms were to succeed and yield dividends. An excessive government role during the transition would undermine the credibility of reform and convince private agents to adopt a wait and see attitude, while immediate complete liberalization was likely to result in high costs for the economy, and perhaps undermine the long term health of the sector. At the time of writing it was still too early to determine whether the government had found the right balance.

Privatization: The parastatal sector in Zambia accounted for some 80 percent of GDP in 1991, with some 160 public enterprises under governmental ownership, employing some 140,000 staff. Most of these parastatals were managed by the state through three different holding companies, Nat Hotels, INDECO (Industrial Development Corporation) and ZIMCO (The Zambian Industrial and Mining Corporation), which had over time added extra layers of management in the public sector, interfering in the day to day operations of public enterprises and engaging in extensive rent seeking through the companies in their portfolio.

In the waning days of the Second Republic, under pressure from the donors, in particular USAID and the World Bank, the government had initiated public enterprise reform, albeit with little enthusiasm. The government had promised to sell ten state-owned companies to the private sector. A Technical Committee on Privatization was set up in the Ministry of Commerce, Trade and Industry as early as May 1990. Although the Committee had performed some valuable preliminary work, identifying some 21 companies to be privatized, it had not actually achieved any privatization transactions by the time of the transition. For its part, the MMD had indicated its determination to undertake significant privatization of the economy in its electoral manifesto of 1991. When it reached power, the MMD promised to privatize some 160 firms within 5 years. Meanwhile, the enterprises to be privatized would not receive any subsidies from the government and could not engage in any new investment. The Privatization Act of June 1992 turned the old Privatization Committee into a quasi-autonomous agency, the ZPA (Zambian Privatization Agency) which was put in charge of returning all commercially oriented parastatals to the private sector within 10 years. USAID agreed to provide substantial technical assistance to the new agency in order to speed up the reform process. President Chiluba indicated that the government would consider divesting itself of all of its firms: there would be no "sacred cows", and the government would even divest itself of its 60 percent stake in ZCCM, the mining giant.

In addition, the government commissioned a Price Waterhouse report to review the role of the three holding companies. Its recommendations were to fold the functions of INDECO and Nat Hotels into ZIMCO, which would be substantially reduced in size and managerial responsibilities. Its new role would be limited to monitoring performance of the parastatal sector as it was prepared for privatization. The government accepted these recommendations and proceeded to amalgamate the management of the parastatal sector under the leadership of ZIMCO. It proved unable or unwilling to circumscribe ZIMCO's authority and managerial discretion, however, so that the immediate and largely unintended consequence of the reform was to actually increase the power of the holding company.

By the middle of 1994, privatization appeared to have become mired in a combination of political intrigue and administrative and technical bottlenecks, which are extremely difficult to disentangle. At the time of writing, negotiations between the ZPA and a private buyer had been concluded for 13 companies, and only 4 had actually changed hands. These included a travel agency, Eagle Travel, and a Mechanics shop, Autocare Limited, while the largest public enterprises in the ZIMCO portfolio remained unsold. Meanwhile, many of the companies still under the control of ZIMCO were suffering from the uncertainty caused by the slow pace of privatization. Unable to attract private capital and no longer receiving subsidies, many lacked the working capital to produce at full capacity, let alone to rehabilitate their often dilapidated equipment and facilities. Although difficult to verify, there were widespread rumors of asset stripping by some parastatal managers.

ZPA got off to an extremely slow start. Appointments to ZPA's juridically mandated Board suffered through a variety of delays, requiring as they did parliamentary and presidential approval, while recruitment of staff was so slow that all of ZPA's top management positions were not filled until April 1993. By then, it was being discredited in the press and was in open conflict with ZIMCO. The holding company publicly accused ZPA of mishandling the privatization transactions of several companies, and in particular of fumbling the valuation exercise, resulting in the gross undervaluation of several enterprises. ZPA responded that all valuations were conducted in transparent fashion by independent firms, but generally refused to enter into public dispute with ZIMCO. The donors and domestic advocates of privatization, notably in the business community, on the other hand, recognized that ZPA's performance had been inadequate and that various technical issues were proving unexpectedly difficult, but accused ZIMCO of trying to slow down the reform process for self interested reasons, since privatization would weaken if not eliminate ZIMCO's very raison d'être. Despite its protests to the contrary, evidence suggests that ZIMCO used a wide variety of tactics to stall the process, from personal attacks on the leadership of ZPA, lobbying of ministers, leaks to the press, illegal retrenchment benefits to selected managers, and non-cooperation on negotiations and transfers of titles of individual companies.

In October 1993, the government nonetheless seemed to side with ZIMCO when it decided to expand that company's role in the privatization process and ordered ZPA to cooperate. The donors responded at the December Consultative Group meeting in Paris by demanding that the holding company be closed down instead, or at the very least that it be considerably slimmed down from its present size. By the March 1994 meeting of the Consultative Group, the government had officially agreed to close ZIMCO down and reiterated its intention to privatize most of its current holdings. Nonetheless, in the succeeding months ZIMCO officials continued to hinder the progress of privatization and actively lobby State House to defer its closure. Perhaps as a result, as of June 1994, the government had still not provided a precise timetable for ZIMCO's closure.

Several factors help explain the lack of progress of privatization between 1992-1994. First, it is important to realize that privatization does not enjoy significant public support, even if there is backing for some disengagement of the state from the economy (Bratton and Liatto-Katundu, 1994). On the domestic side, the only constituency with unwavering support for privatization is the business community. Several of the latter were prominent in the coalition that swept to power in 1991 and were instrumental in placing privatization on the MMD platform. The business community derived its influence on policy by helping to finance the MMD during the 1991 elections. It should be noted that as the state's resources have become available to the MMD, it has been less dependent on this source of support. It should also be noted that for many Zambians, the business community's support for privatization is viewed as self-interested and therefore suspect. Indeed, some Zambians attribute MMD's support of privatization entirely to the fact that the process would profit the businessmen who had helped finance the party's 1991 campaign (Interviews, Lusaka, June 1994). This cynicism has grown over time, as rumors and news stories of corruption among the MMD elite have multiplied.

Opposition to privatization is typically linked to two types of concerns. First, some Zambians express a concern about foreign or non-African control of the economy. As is well know, the colonial economy was entirely in the hands of non-Africans. Nationalization in the late 1960s and early 1970s was widely perceived as a process of Africanization of the economy; in the absence of an African bourgeoisie to displace the European and Asian business owners, the state would nationalize their firms, a process that was necessary to extend the process of de-colonization to the economic sphere (Turok, 1989; Baylies, 1982). With the emergence of regional conflict with the white settler states (Mozambique, Rhodesia and South Africa), africanization of the economy also took on a security dimension in many Zambians' minds. Hostility to privatization today is often driven by the perception that it will promote de-africanization of the economy. These attitudes are only reinforced by the fact that some prominent advocates of privatization in the business community are white, that the donors have supported it so assiduously, and that ZPA's technical work has been done almost entirely by foreign donor financed experts.

There are also fears about the impact of privatization on the economy and in particular on employment. This is particularly true of organized labor. Officially, the unions protest that they have long advocated the need for some privatization [33]. Nonetheless, they have tended to believe that it is likely to be detrimental to the interests of their members. In the absence of public opinion data, it is not possible to determine whether the union rank and file views privatization negatively, but there

[33] It is true that as early as 1973, Newstead Zimba, then the General Secretary of the ZCTU, had suggested that it was easier to deal with private than with state employers since the former did not employ the security forces during labor disputes (Baylies and Szeftel, p. 85).

does seem to be agreement across a broad spectrum that privatization will cause a large number of layoffs and a deterioration in the conditions of service for employees of the privatized companies. The argument advanced by advocates of privatization that it is likely to have positive impact on employment and wage levels in the long run does not appear to have had positive impact on public opinion.

Second, the donors have been energetic supporters of privatization, going so far as to give it pride of place in their conditionality with the government. As a result, the government has been obliged to maintain privatization at the top of its official agenda. Nonetheless, there is no reason to believe that privatization enjoys much support within the state elite. Many senior technocrats continue to believe that the state should "hold the commanding heights" of the economy to promote economic development and ensure national security [34]. They do not necessarily oppose some limited privatization, they agree that parastatals snould not receive costly subsidies on a regular basis, and they may support a reduced role for ZIMCO, but they oppose the privatization of ZCCM, say, or of ZESCO. On the other hand, there probably remain in top political circles many people who oppose privatization for the same political reasons UNIP did: they believe that controlling a large part of the economy confers advantages to MMD in the form of access to resources and patronage that outweigh its economic disadvantages. These views have gained strength over time as the MMD has consolidated its hold on the state apparatus.

Third, and related to these first two sets of factors is the poor selling job that the government has done to promote its privatization program. Even its strongest supporters have not been good salesmen for the program. There have been few press releases and few attempts to counter the campaign against divestiture orchestrated by ZIMCO and its allies. Moreover, the president has rarely promoted his government's privatization program in his speeches and public appearances. This changed somewhat with the arrival of Dipak Patel as Minister of Commerce, Trade and Industry, who has been an eloquent advocate, and it is true that a number of public fora have helped promote a public discussion of privatization. ZPA itself finally launched an aggressive advertising campaign on the benefits of privatization in August 1994. Maybe these efforts will have an impact in the future; it remains true that the benefits and objectives of privatization remain poorly understood by a large majority of the population and that the government's motives for implementing the program are considered suspect, even among the educated elite.

Civil Service Reform: It had long been recognized that the civil service was badly in need of reorganization, highly overstaffed and poorly paid, and a number of reports, commissions and donor projects had focused on public management reform during the 1980s [35]. The new government

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[34] This became clear at the June 1994 Symposium on industrial policy, at which a majority of the civil servants who spoke voiced such sentiments, despite the fact that the presiding minister, and the boss of many of them, Dipak Patel is a well known supporter of privatization.

[35] As early as 1979, a governmental commission had argued that civil service personnel should be reduced by 50 percent. In 1991, the World Bank estimated at some 142,000 the number of public employees, including some 72,300 civil servants. In mid 1992, the average salary of the most senior civil servants in real terms was no more than 50 percent of what it was in 1980, despite the recent pay increases. (Ministry of Finance, 1992, p. 14).

promised an important reform program which it viewed as critical to its own long term effectiveness. The Public Service Reform Programme (PSRP) was finally launched on November 2, 1993, with great fanfare, promising to cut the civil service by 25 percent within 3 years, and to improve the conditions of service for the remaining staff in order to attract and retain the best candidates. In 1992, the government did implement the retrenchment of 15,000 "classified daily employees" (CDEs), poorly paid manual workers with no job security. Nonetheless, as of mid 1994, no retrenchments had yet taken place of civil servants, and only 1,000 were foreseen in the 1994 budget. A series of management audits of individual ministries had been initiated, but were proceeding a snail's pace (interviews, Lusaka, June, 1994). The main obstacle has been the program's cost. It is estimated that to retrench 3,000 civil servants and 3,000 classified daily employees in 1994 will cost K26 billion, given the package negotiated with the unions, yet only K6 billion was provided for in the budget. Part of the cost could be met by in-kind payments such as publicly owned houses and vehicles, but even under the most generous valuation, it is fair to assume that the full retrenchment program would break the present budget. As a result, implementation of the PSRP as presently conceived appeared highly unlikely in mid 1994.

Social Sector Reform: One of Kaunda's arguments for resisting economic reform during the Second Republic had been its alleged social cost, particularly to the poor. A striking characteristic of the Second Republic, however, was its growing social inequalities and growing poverty. UNDP estimated that 26 percent of the urban and 80 percent of the rural population lived in absolute poverty in the late 1980s (UNDP, p. 171, 1993). Social expenditures were hit particularly hard by the economic crisis. Over the period 1984-1991, overall government spending declined by 30 percent in real terms, but social services spending declined by almost 50 percent, while, for example, defense spending remained constant (The World Bank, 1992c). As a result, by 1991, education expenditures were at a quarter of their 1982 levels.

Some observers argued that the Kaunda regime could not eliminate food subsidies because they were by the mid 1980s the government's last anti-poverty program, despite its stridently populist rhetoric (See West, 1990; and Graham, 1994). Recognizing both that the pattern of expenditure had been regressive in the past, and that certain adjustment measures -- notably the reduction in maize subsidies -- would have a negative short term impact on the poor, the new government promised a greater attention to social welfare policy. The donors and the MMD reformers recognized that increasing certain social expenditures would help ensure the political viability of the reforms program (interviews, Lusaka, June 1994). Given MMD's campaign promises, increased spending was highly desirable to secure rapid and visible improvements in the social sectors and in public infrastructure.

A Social Sector Rehabilitation and Development Programme, 1994-1996 (SSRDP) was prepared in 1993 and placed in the Vice-President's office to highlight the importance the government attached to increased spending in the social sector. Despite this initial high profile, the government's efforts in this area have been ambiguous. Social sector expenditures were to increase from 28 percent in the 1993 budget to 33 percent in the 1994 budget and real progress has been made in some sectors. There is general agreement that there has been a real effort to improve service delivery in the health sector, where two long standing advocates of reform, Dr. Kawimbe and Dr. Kalumba, respectively minister and deputy minister in the first MMD government, continued and expanded reforms initiated during the late 1980s. Yet, health stands out as something of an exception. Perhaps more typical is the education sector, where little change has been undertaken and quality levels are said to continue to decline (Interviews, Lusaka, June 1994).

Overall, it appears that the government has continued to accord relatively low priority to the social sectors and to poverty reduction. Certainly, budgetary outlays have not increased to the levels advocated by different World Bank documents and initially promised by the government. Such spending is amply justified in developmental terms as public goods and human capital investment, and has long been advocated by the donors as such (see the World Bank, 1993, p. 5, for example). In the long run, everyone agrees, these expenditures are desirable to speed up economic recovery. Unfortunately, they would be expensive and would require more cuts elsewhere in the budget or revenue increases, at least in the logic of the cash budget.

Throughout 1992-1994, the donors advocated more social spending, or at least its re-orientation [36], but did not press the government on this issue, preferring to focus on issues such as privatization, which they considered more pressing (Interviews, Lusaka, June 1994). For its part, the government did not appear to accord these issues high priority. There certainly seems to be a widespread perception that poverty continues to increase and that its reduction does not feature high on the government's list of priorities. As Graham has speculated, perhaps this is because "due to the strong anti-UNIP origin of many MMD members, an anti-planning sentiment prevailed in many government agencies and ministries, which was an obstacle to the formulation of a coherent government strategy to address the social costs of adjustment" (Graham, p. 244).

This neglect may prove a political miscalculation. Increased infrastructural and social spending would not only be highly popular, it would help legitimate the government's tough austerity program, both by improving the social safety net for the victims of austerity and by sending out the message that the government is aware of people's hardships.

6. Explaining Reform Implementation In the Third Republic

By mid 1994, it was thus clear that significant progress had been made on certain elements of the economic reform program, but that others remained stuck at a standstill, or were moving very slowly indeed. How can we explain these differences? In this section, we examine a number of relevant factors. We do not seek single causes; rather we explain reform outcomes as resulting from a combination of factors. We first discuss the issue of government commitment, and arguments that reform has slowed down because of a waning of commitment over time. We suggest that there is some truth to such arguments but that they exaggerate the amount of change over time. Instead, we argue that the MMD coalition never enjoyed a consensus on some aspects of the reform program, often the ones that are stalled today, such as privatization. Second, we analyze interest group pressures on the state and find that some groups have increased in influence, while others have decreased, but that over all no interest group can claim to have wielded determinant influence over any component of the reform program. Third, we argue that policy learning has played a critical role

[36] From secondary to primary education, for example, or from urban curative medecine to rural based preventative services. See The World Bank (1992, pp. 56-80).

over time; reform has advanced furthest in areas in which there had been reform attempts during the Second Republic. Fourth, we suggest that the administrative complexities and financial burdens have also played a significant role in slowing down reform.

6. 1. A Waning of Commitment to Reform?

Many observers have argued that the reform program simply began to run out of gas in 1993; the policies which could be implemented in the first two years of MMD rule were carried out successfully, while the others have been victimized by a progressive loss of momentum. The loss of momentum, in turn, is usually attributed to a flagging commitment to reform in general on the part of the top leadership. There are two slightly different versions of the argument. First, it is argued that the balance of forces within MMD have progressively turned against reform. In this argument, the watershed event is the April 15 1993 ministerial reshuffle, which witnessed the departure from government of several of the leaders of the reformist wing of the government. These included Emmanuel Kasonde, the departing Minister of Finance and clearly the cabinet's pro-reform heavyweight, but also Guy Scott (Ministry of Agriculture), Humphrey Mulemba (Ministry of Mines) and Arthur Wina (Ministry of Education), all publicly associated with the reform program. Since then, it is argued, economic reform has slowed down.

We think it would wrong, however, to put too much emphasis on the makeup of the cabinet. The dismissals had little to do with economic issues, reflecting rather a political clash within the leadership of the MMD [37]. The number of ministers who are clearly pro-reform has not changed. In mid 1994, certainly, the key Ministries of Finance (Penza), Agriculture (Zukas) and Trade Commerce and Industry (Patel) are all in the hands of apparently committed reformers. It may well be that these three individuals enjoy less influence or prestige than their predecessors, but they have undeniably worked assiduously on behalf of reform, and it would be hard to blame them for the slowdown. In particular, Minister Penza has continued to be given almost complete freedom in budgetary and monetary matters by the president (Interviews, June 1994).

Observers have pointed to the related defections the MMD has suffered over time to explain policy changes. Almost immediately after it came to power, personal rivalries and ideological differences began to undermine the party's cohesion. The establishment of the National Party (NP) in August 1993 created a potentially viable vehicle for opposition to the government and the new party was the beneficiary of a series of significant defections from the MMD, including Arthur Wina and Emmanuel Kasonde, two founding members of MMD and leading economic reformers. In the fall of that year the NP won a series of parliamentary by-elections, emerging as a serious threat to the MMD, even if Kasonde himself lost his by-election bid in a contest marked by ethnic slurs and probable fraud [38]. The emergence of the NP is said to have undermined economic reform since the government would naturally be less inclined to undertake politically unpopular reforms if faced with electoral competition. There is almost certainly some truth to that argument; until the emergence of

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[37] These are explored in "Zambia: The Model Democracy Loses its Shine", in *Africa Confidential*, May 14, 1993 (Vol. 34, no. 10); and "A Major Realignment", *Profit Magazine*, May 1993, p. 17-19.

[38] See "Zambia: Defeats and Defections", in *Africa Confidential*, December 17, 1993 (Vol. 34, no. 25).

the NP, Zambia looked increasingly like becoming a one-party state, so dominant was the MMD. Unfortunately, after an auspicious start, the NP has gained little and is not for the foreseeable future a real threat to the MMD. By itself, the emergence of electoral competition cannot provide a satisfactory explanation regarding the slow down of economic reform.

Secondly, it is argued, that President Chiluba's own commitment to reform has lessened over time. The approach of the 1996 elections is said to have progressively impressed on Chiluba the need to move cautiously on reform, particularly as the recovery was slow in gathering momentum. As Chiluba told a gathering of senior policy makers in June 1994, rejecting blind adherence to economic liberalism, he had "not been elected by market forces" (*Times of Zambia*, June 2, 1994). As his own commitment has waned, it is suggested, Chiluba has lessened the number of reformers in the cabinet, and policy has come to be shaped more by some senior political advisers in State House, who do not support reform. There may well be some truth to these arguments, but it must be pointed out that all of the achievements on stabilization policies put into place in 1992 and 1993 have remained in place, and Chiluba has continued to support the tough monetary and fiscal policies pursued by the Bank of Zambia, despite growing criticism in parliament and the press. Clearly, at least some of Chiluba's public rhetoric is meant for the gallery and does not herald a change in policy.

What are we to make of such arguments? Commitment to reform is a complex phenomenon and demands a sophisticated explanation. On a most general level, the commitment to undertake major policy changes always erodes over time, for all governments. In their heady first days of office after an electoral triumph, governments often underestimate the difficulties of reform. They enjoy popular legitimacy, a sense of purpose and internal cohesion, all factors that are necessary to implement major policy changes. Over time, governments lose these characteristics, and the MMD's "wear and tear" after 2 years in power does not seem unusual.

The initial push for reform was, moreover, facilitated by the widespread perception that the country was facing a major crisis. Some scholars have argued that economic reform is most likely when governments believe they are facing an extraordinary economic crisis that demands the suspension of politics and regular procedures, less the crisis threaten the government's very existence (Grindle and Thomas, 1991). We would argue that such a crisis was perceived to exist in 1991, when the MMD reached power thanks to hyper-inflation, drought and general economic decay. All the components of the MMD coalition appreciated the need to get a handle on the budget and bring down inflation, given the growing chaos in the economy. For that there was unqualified support, and indeed, it has remained quite strong since then. There was much less consensus within the MMD for the rest of the reform program, in particular the long term structural reforms of the economy promoted by the donors. The perception of a crisis in 1991 probably helped the reformers within the MMD win the upper hand and gained them broad support for a spirited fight against inflation, and, in its train, for other reform measures, such as privatization. As the government's stabilization measures brought the economy back under control and the perception of a crisis receded, it was only natural that some members of the MMD coalition reaffirm their natural policy proclivities, and tilt the balance of policy outcomes away from rapid reform. This was particularly true of the elements of the MMD, many of whom had enjoyed prominent positions in the Second Republic, who were involved in rent seeking through the state's economic institutions. These politicians appreciated the political advantages of key state interventions in the economy and, once the economic crisis had receded somewhat by say mid 1993, were able to impress them upon the MMD's top leadership more often.

This dynamic is particularly striking with regard to privatization. As we discussed above, there has always been considerable ideological opposition to privatization, although it was more or less muted in 1991. On the whole, the government has continued to support the principle of withholding all subsidies to the parastatals, given its potential impact on the budget. At the same time, ideological opposition to privatization has united with rent seeking interests within the MMD to thwart reform of the ZIMCO empire. Once the short term impact of the state sector -- ie. budget deficits -- had been dealt with, there remained much less support for the long term benefits of privatization, i.e. faster economic growth.

Thus, it is somewhat inaccurate to say that commitment has waned over time. In some reform areas it has remained quite strong, while in other areas, the commitment was never more than a temporary and ambivalent one. The reformers' trump card was and remains donor finance, allowing them to retain considerable influence and to continue setting basic macro-economic policy without political interference. The MMD is unlikely to take on the donors frontally, but as time goes by, we are likely to see a return to politics as usual and slower movement on structural reforms over which there is no political consensus within MMD. Our analysis does suggest that the economic and political logic relative to reform sequencing and speed are somewhat at odds with each other. The economics of reform suggest that macro-economic stabilization has to be achieved before structural reforms are undertaken for the latter to be successful. Indeed, our analysis of maize marketing liberalization reveals the dangers of undertaking structural reforms before stabilization is achieved. On the other hand, however, political analysis suggests that the incentives for long term structural reforms will peak before stabilization is complete and that the more stabilization is achieved, the more politicians will think structural reform unnecessarily difficult.

6. 2. Relations between Government and Pressure Groups

Another line of explanation regarding the slow down of policy changes emphasizes the role of pressure groups and their ability to influence government. We argue however that, while it is true that the Third Republic has witnessed an increase in the contacts between interest and civic organizations as well as a more open and transparent decision making process, these groups have not significantly increased their ability to influence policy.

The Opening up of Government: The UNIP government was often criticized for its secretive and highly centralized decision making. The failure of economic reform in the Second Republic was attributed in part to the inability or unwillingness of the government to publicly present and explain its economic policy choices to the public (See, for example, Gulhati, 1989; and Graham, 1994). The MMD publicly promised to open up decision making processes, both to assert its own democratic values, and because it believed that a public dialogue would help sell the ambitious economic reform program it wanted to implement. We saw above how various groups such as ZACCI or the ZCTU have been invited onto the boards of various public bodies. In late 1993, the President similarly established a "Council of Economic Advisers", which included representatives from all the major pressure groups, officially to provide the President with a diverse set of points of views on critical issues. In addition, key reformers in the government, notably Patel and Scott, placed great stock on articulating and explaining government policy to the public (See Graham, 1994). That meant that key ministers increased their access to the media, and organized regular public meetings in which they presented elements of the reform program. The seminars, workshops, and symposia have continued unabated on virtually every aspect of government policy. For example, the Ministry of Commerce, Trade and Industry organized a three day symposium to discuss its draft industrial policy in June 1994 and invited a broad cross-section of senior civil servants, donors and representatives from labor and business. Minister Patel attended most of the sessions and patiently answered sometimes quite aggressive questions from the floor.

Even critics of the government's economic policies recognize that access to decision makers is easier than it was in the Second Republic, and that these various fora provide points of access to the executive branch of government. Nonetheless, there is little reason to think that public fora have constituted real dialogues between the government and civil society, however, in which the government has been convinced to change course. Rather they have provided the government with a good way to gauge attitudes regarding government policies, to send up trial balloons, and to communicate the government's economic positions and their rationale.

In addition, this greater openness has not included greater popular participation, but has rather been limited to urban elites. The overwhelming majority of Zambians continue to have little or no voice in the nation's economic affairs. They are not represented by the organized pressure groups, which for the most part defend the interests of the minority of Zambians fully integrated in the formal economy. Related to this is the fact that the legislature remains a marginal player in policy making. Parliament would potentially be more responsive to grass roots pressures than the executive branch, but it has not played that role and has been essentially ignored by various interest groups, which know that it is much more profitable to lobby State House or the relevant ministry in order to get something done. Few individual back-benchers have taken constituency service seriously, and in turn few can claim real popularity in their home district [39].

Pressure Group Influences: Of all the traditional pressure groups only business can claim to have seen its influence increase in the Third Republic. Democratization has ironically probably weakened the influence of organized labor and, although it is less opposed to the government's current policies, the farmers' lobby. Labor in particular enjoyed a privileged position in the Second Republic, as the principal independent organization tolerated by the government. However uneasy its relationship was with the government, it enjoyed a unique position and the Kaunda regime could rarely afford to completely disregard it. Today, on the other hand, labor competes for influence with a number of other independent organizations, and the government's greater legitimacy allows it to contest labor positions more openly.

Pressure group influence has clearly been felt on certain elements of the reform program. Clearly, the lobbying of farmer groups helped convince the government of the need to provide financial relief to agriculture in mid-1993. Similarly, the severance package for retrenched civil servants, whose cost is currently delaying civil service reform, was in large part the result of a negotiation with the civil servants' union. The fact that the government has continued to respect the

[39] The lack of popularity of Parliament and most of its members is often remarked upon in the press. See for example "MPs Unpopular", in *The Sun*, May 23-29, 1994.

terms of the package even though it can not really afford them suggests something about the continuing influence of the civil service union. Also influential in a less tangible way has been the Economic Association of Zambia (EAZ), a loose affiliation of various intellectuals, businessmen and politicians that meets regularly to debate economic issues, and which does not quite fit any of the categories discussed so far, but is worth mentioning because its debates are prominently reported in the press. The EAZ has become increasingly critical of the adjustment program and is invoked as expert opinion by, for example, the popular press when it wants to criticize the government.

It is more difficult to say what impact civic and church organizations have had on the government's economic policies. The churches -- in particular the Catholic Church -- have been insistent and often eloquent critics of the welfare impact of the economic crisis and of the weakness of the government's poverty alleviation efforts [40]. In that sense, the churches can be influential critics of the austerity policies pursued under the guise of stabilization policy. On the other hand, they have little to say about structural adjustment policies such as privatization. The press has commented on economic policies on almost a daily basis; the sense one gets from an informal survey of this press is that it is generally hostile to economic liberalization, with the exception of the specialized business press, which is closely linked to business associations and is a consistently strong advocate of reform.

Thus, interest groups pressures on the government have affected some policy outcomes. Several caveats are in order, however. The first is that these same groups have not prevented the tough monetary and budgetary stabilization policies discussed above. Their opposition to the cash budget has not been heeded at all, for example. Second, these groups cannot be credited with slowing down other reforms, such as privatization, for which the locus of opposition is clearly within the state itself. We therefore have to come to a nuanced judgement regarding the impact of these interest groups; while their impact on policy making is not negligible and has been increased somewhat by democratization, it remains limited to only some policy areas and is rarely the determining factor in government decisions.

6. 3. Implementation difficulties

So far, our explanation of policy outcomes has focused on political factors that prevent reform. The progress of reform is also affected by non-political factors; in this section and the next one, we examine two such sets of factors, administrative implementation difficulties and policy learning. the degree of complexity of different components of the reform program varies significantly, from the extremely complicated privatization exercise, to the government's monetary policies, which can be designed and implemented by a handful of officials.

Zambia's administrative capacities are quite weak, and it would be surprising indeed if they did not prove to be an obstacle to certain complex reforms. Looking at the specific reforms discussed in this paper, there is a striking correlation between administrative difficulty and progress in implementation. Without seeking to minimize the very real analytical and monitoring difficulties

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[40] See for example "Hear the Cry of the Poor: A Pastoral Letter on the Current Suffering of the People of Zambia". Catholic Secretariat, Lusaka, (July 1993)

involved, it is clear that the government's fiscal and monetary stabilization policies were the least taxing of the administration's capacities. At the other extreme, privatization involves the valuation of 160 firms and their assets, followed by the evaluation of bids, negotiation of sales and transfer of titles. Enormous accounting, finance and legal expertise is required for virtually every sale, yet they are in exceedingly short supply within the state apparatus.

It might also be noted that political opposition to reform is likely to become more effective when complex administrative and technical issues are involved. First, there are simply a larger number of arenas, issues and opportunities for political opposition to express itself. Implementation will last longer, consist of a larger number of operations and involve more actors.

Second, there are many more opportunities for prevarication or sabotage that can plausibly be disguised as relatively innocent incompetence. For example, when ZIMCO claims to have lost the titles of privatizing firms, slowing down their transfer to the private sector, no one can be sure of the circumstances in which they were lost. If it is no accident that corruption thrives in weak administrative systems, it should be equally unsurprising that corrupt systems invariably have weak administrative capacity.

Third, complex, technical issues can be politicized and made contentious. Thus, ZPA is accused of selling off firms at "fire sale" prices by the opponents of privatization, who demand a second opinion regarding the firms' value. The valuation exercise is complicated enough that ZPA will find it difficult to counter such charges without wasting valuable time and resources, and such accusations will slow down and de-legitimize reform, regardless of their validity.

6. 4. Policy learning

In part because implementing reform is complex and the Zambian administration's capacity is limited, an important factor in explaining reform implementation success in Third Republic is policy learning. One of the striking things about reform in the Third Republic is that many policy changes being implemented today have been discussed for some time, and often had been attempted during the Second Republic. Thus, the government tried to eliminate maize consumer subsidies twice during the 1980s, before achieving in 1992. Similarly, agricultural marketing liberalization was begun in 1989 -- albeit tentatively and insincerely -- and had been discussed in policy circles since the early 1980s. The first official discussion of civil service retrenchment dates back to 1979 and several governmental commissions had established proposals that were never implemented. Finally, the structures in the BOZ and Ministry of Finance that have implemented the cash budget are in many cases the direct legacy of past failed attempts at stabilization.

By policy learning we mean essentially the fact that the civil servants who design and implement policy learn from their successes and failures, and adapt their policy preferences as a result of that learning. This means first, that the commitment to reform in the 1990s was in part motivated by the failure of past policies. Thus, we argued above that Zambia's attempts to implement a heterodox reform program without the help of the IFIs between 1987 and 1989 generated key lessons for the senior civil servants who put it into place about how the Zambian economy worked and what was realistically possible. Similarly, it was disappointment with the achievements of the control regime in agriculture that led to a demand for marketing reform.

Second, it means that past attempts at reform are critically important to the success of current efforts. Observers of reform during the 1980s doubted the government's commitment, arguing that reform was pushed by the donors and a small number of technocrats (Callaghy, 1990; Gulhati, 1989). Nonetheless, these failed attempts at reform introduced pro-reform foreign experts into key parts of the administration and provided for equipment and the training of key personnel, all of which increased the analytical capacity of the administration and generated intense debate about policy alternatives. Reformers gained experience and learned from their mistakes, improving the design and implementation of reform when it was attempted again after 1991.

This experience proved valuable when the political leadership changed in 1991 and a government less hostile to reform emerged. Past policy learning allowed reformers to move fast and put viable reform programs into place quickly and effectively, knowing that this time they would enjoy the support of their political superiors. This is not to argue that policy learning in the civil service could overcome serious political opposition to specific reforms. Indeed, successful reforms will typically result from the conjunction of policy learning in the civil service and the commitment of the top political leadership, as was the case notably for the removal of maize consumer subsidies. On the other hand, past policy learning can play an important role in defusing or surmounting limited political obstacles. For example, is it not likely that the ability of reformers to push ahead quickly with the reform of agricultural marketing, thanks to the experience gained in the past, allowed the program to make great strides before political opposition was able to organize? On the other hand, the inexperience of ZPA and the many resulting delays in the privatization program almost certainly allowed the political opponents of privatization to fight back and progressively gain the upper hand.

6. 5. Concluding Remarks

The success and failure of reform does not hinge on any single factor. We have argued that instead policy outcomes can be related to the conjunction of a number of different factors, including governmental commitment to the reform program, the influence pressure groups are able to bring to bear on the reform program, its technical and administrative difficulties and finally, the amount of policy learning gained from previous reform attempts.

The remaining question is to what extent any of these factors are affected by democratization. First, it seems clear that democratization in Zambia brought to power a social coalition much more favorable to economic reform than the previous regime. it confirms an earlier hypothesis that groups that have been out of power a long time are less likely to be implicated in state controlled rent-seeking networks than incumbents, so that new regimes would be more likely to engage in reform. But that would have been true whether the MMD had reached power after a democratic transition or thanks to a military coup. Nothing in our analysis has linked the MMD's commitment to economic reform with its commitment to democratization of Zambian political life.

Second, various interest groups such as organized labor or farmer organizations have benefitted from democratization. They now operate more freely and can express their opinions with greater boldness. At the same time, few of these interest groups can claim to enjoy greater influence on economic outcomes than in the Second Republic. On the contrary, the farmers' lobby continues to be hampered by various organizational weaknesses, while the opening up of the decision making process has empowered new actors and has lessened the privileged access that both they and the ZCTU enjoyed before 1991. Its electoral mandate gave the MMD government greater autonomy from such interest group pressure than Kaunda had ever had. This situation may evolve over time, as other interest groups increase their organizational strength and if and when a real parliamentary opposition emerges. For now, only the business lobby appears to have gained in policy influence in the Third Republic, and that appears mcre related to the new government's ideological proclivities than to democratization.

Third, the impact of policy learning and administrative capacities on policy outcomes have probably increased in the Third Republic, thanks to the end of UNIP interference in day to day policy making and the increase in autonomy of the civil service. This improvement is however less related to democratization of the regime as it is more narrowly to the end of the single party. Indeed, it will be interesting to see whether the MMD attempts to increase its influence over ministerial decision making in the future. Again, whether or not an effective opposition emerges in and out of parliament will likely prove critical.

In these matters as in others, it is clear that the Third Republic has not yet fully articulated a new and "democratic" politics. While the system has been undeniably liberalized, accountability, transparency and popular participation in decision making remain similar to the practices that prevailed during the Second Republic. This is true in the way in which the executive has treated parliament, for example, in the way that key institutions like ZIMCO continue to escape accountability, in the continuing importance of clientelism in politics, or in the extremely limited popular participation available to most Zambians. The challenge for democrats in Zambia in the coming years will be to finish what was begun in 1991 and articulate a fully democratic politics.

7. Implications for USAID

The foregoing analysis has a number of implications for USAID, its dialogue with the government and other donors, and its program in Zambia. We identify five of them:

First and most generally, our analysis suggests that democratization in Africa should not be considered as inimical to the process of economic reform. Traditional fears about the ability of democratically elected governments to undertake liberal economic policy reforms seem misplaced. At least in Zambia, democratization coincided with the emergence of a significantly greater commitment to economic stabilization and free market reform. If this is so, then USAID can take some comfort in the knowledge that it does not need to choose between the two sets of reform, but can promote both.

Indeed, our analysis suggests that still greater democratization of Zambia's politics will be needed to promote faster economic reform. The greatest emerging obstacles to economic reform are not interest group pressures on the state or excessive popular participation; on the contrary, they are the continuing low levels of accountability and transparency of decision making in the executive branch of government and in institutions like ZIMCO and ZCCM. These problems will remain until the nation's other political institutions are strengthened and can begin to contest executive predominance. Thus, complete democratization will require the strengthening of the still exceedingly weak parliament and the emergence of a real opposition, but also a completely independent judiciary and a stronger and more professional press. If this analysis is essentially correct, then the implications for USAID are quite clear: assistance to institutions such as parliament, the judiciary and the press promote democratization and should be intensified. Institution building being an exceedingly laborious process, in the meantime, dialogue with the government should emphasize greater transparency and accountability. USAID and the other donors should, for example, continue to respond vigorously whenever cases of government corruption are unmasked. Less sensationally, they should use the annual budgetary exercise as an opportunity to increase budgetary transparency, notably in the legislature. Organizing and financing public seminars that would disseminate analysis of the budget to the press and legislature might be particularly useful.

Second, our analysis suggests that policy learning is a more significant component of the donor-recipient relationship than we have sometimes assumed. The need for policy learning is a critical pre-requisite of successful reform. Senior officials need to be able to experiment with different policies and assess the advantages and disadvantages of the choices they make. The failures of 1987-1989 made possible some of the success of 1991-1993. True, purely political obstacles to reform are difficult to overcome, but again and again, we see that the permanent bureaucracy can play a significant blocking role as well when it is not convinced of the advantages of reform. USAID should therefore take heed of the factors that appear to promote policy learning. First, policy learning benefits from policy analysis capacity, which USAID should continue to promote, through training of officials in public policy analysis, cost benefit economics and other related fields, and institutional strengthening of the policy making units of each ministry. Second, our analysis suggests the benefits of an intensive policy dialogue between donors and recipients, since there has clearly been a transfer of policy ideas from the donor community to national decision makers over time, however frustrating and slow the process has seemed at times. In the past, this dialogue has been private and non-participatory. USAID should continue an intensive policy dialogue with senior officials, but should also expand it to the media, the legislature and the public at large. Public dissemination of information about policy issues should be a component of all USAID projects.

Third, and related to the issues of policy learning, is the issue of conditionality. Donor conditionality is at odds with democratic rule since it makes governments accountable to foreign donors rather than to voters and their representatives in parliament. It is also highly unpopular and often viewed as driven by suspect motives, as we discussed in relation to privatization. Micro-conditionality, or the setting of extremely specific targets on relatively trivial policy issues, has proven counterproductive as it slows down the process of policy learning. In the current Zambian climate and given how much progress on reform has already been achieved, we argue that USAID should not loosen its conditionality, but should rather limit it to a small number of concerns. In addition, conditionality should emphasize procedural and governance issues rather than specific economic policies. For example, USAID and the other donors should be inflexible on the need to maintain the cash budget and the principle of not resorting to deficit financing, clearly the greatest achievement of economic reform so far. The donors should defend the Bank of Zambia's independence as much as possible to help sustain that principle. At the same time, it does not strike us as useful or politically popular for the donors to dictate the spending cuts the government needs to make to sustain the cash budget. That is a decision which the Zambian people need to make democratically.

Another example concerns privatization. The government appears to have accepted the general principle that parastatals not receive any government subsidies, and the donors should make sure the government sticks to it. The enforcement of such a principle reduces the fiscal burden of the parastatal sector and forces individual parastatals to become more efficient or wither away. As long as it is maintained, it is difficult to believe that the public sector's inefficiencies are a significant drag on the economy. It seems less productive, on the other hand, for the donors to continue to setting precise targets within the privatization program. These targets are invariably not met, yet donors can never be sure if the obstacles are political in nature or technical, and so are in a poor position to enforce the conditionality. They are also not popular, widely viewed as pressure to sell off companies cheap to foreigners [41]. In the long run, the objective of extensive privatization will be better served by, first, enforcing the cash budget and, second, promoting greater transparency and accountability in ZIMCO and its parastatals. On the latter, the donors should be inflexible in their dialogue with the government. The more information Zambians have about the degree of corruption, rent seeking and incompetence in the ZIMCO empire, the better they will understand the opportunity costs of not privatizing. Moreover, in the long run, it is far more useful for the USAID to be viewed by the public as standing up for probity and good governance than for the privatization of Eagle Travel or Consolidated Tyres Incorporated.

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[41] As one senior civil servant told us, "USAID wants us to replace a government monopoly with a private South African one". However unfair they may be, these views are not uncommon.

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ANNEX

List of Persons Consulted

1. Donor Community

Fred Winch	Director	USAID/Zambia
Rudy Thomas	Assistant Director	USAID/Zambia
John J. Wiebler	Program Officer	USAID/Zambia
Betty Wilkinson	Privatisation Officer	USAID/Zambia
Jim Polhemus	D/G Advisor	USAID/Zambia
Necie Quast	Economic Affairs Officer	US Embassy, Lusaka
Donald Gatto	Political Affairs Officer	US Embassy, Lusaka
John Todd	Principal Economist	Southern African Division, World Bank.

2. Government

S. Musokotwane	Director of Research	Bank of Zambia
Likolo Ndalamei	Senior Economist	Bank of Zambia
Dr. H. Sikanetta	Director	Policy Analysis Unit, Cabinet
D. Mendamenda	Deputy Director	NCDP
John Matale	Director	Zambian Privatization Agency
Malcolm McPherson	Team Leader, Ministry of Finance	Harvard Institute of International Development
Ernest Mwansa	Legal Secretary, Parliamentarian	Movement for Multi-Party Democracy
Maurice Thorne	Policy Advisor	Ministry of Commerce, Trade and Industry
Jim McKenzie	Expert	Zambia Agricultural Training, Planning and Institutional Development Project (ZATPID)

Jim Billings	Expert	Cabinet Office
Catherine Riley	Expert	Abt Associates

3. Other

Abel Mkandawire	Board member	Zambia Association of Chambers of Commerce and Industry
Murray Sanderson	Board member	Zambia Association of Chambers of Commerce and Industry
J.M. Cruickshank		Peat Marwick
Felix Chaila	General Manager	Consolidated Tyre Services
Alec Chirwa	Secretary General	Zambian Congress of Trade Unions
Fackson Shamenda	President	Zambian Congress of Trade UnionsZCTU
Austin Muneku	Economist	Zambian Congress of Trade Unions
Ben Kapita	President	Zambian National Farmers Union
John Hudson	Executive Director	Zambian National Farmers Union
Manenga Ndulo	Professor of Economics	University of Zambia
Guy Scott	Commercial Farmer	
Peter Henriot		Jesuit Centre for Theological Reflection
Roger Chongwe	Jurist	